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**Goldman, Sachs & Co. – Merchant Banking Division**

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**This brochure provides information about the qualifications and business practices of the Merchant Banking Division of Goldman, Sachs & Co. If you have any questions about the contents of this brochure, please contact us at (212) 902-1000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Investment adviser registration does not imply a certain level of skill or training.**

**Additional information about Goldman, Sachs & Co.'s Merchant Banking Division is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**March 30, 2016**

This brochure describes the investment advisory services provided by the Merchant Banking Division of Goldman, Sachs & Co. ("GS&Co."). A separate brochure has been prepared for GS&Co.'s Private Wealth Management group.

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## **Item 2 – MATERIAL CHANGES**

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This brochure (“Brochure”) is dated March 30, 2016 and is the annual updating amendment to the prior brochure, dated March 31, 2015. The business operations described in Part 2 of Form ADV have not changed materially from the prior brochure. However, the Merchant Banking Division has updated and expanded disclosures relating to its business operations, particularly in the following areas:

- Item 5 – Fees and Compensation
- Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss
- Item 10 – Other Financial Industry and Affiliates
- Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

For ease of reference, capitalized terms that are defined when first used in the Brochure are also set forth in the Glossary.

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## **Item 4 - ADVISORY BUSINESS**

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### **Introduction**

This Brochure relates to the investment advisory services offered by the Merchant Banking Division (“MBD”) of Goldman, Sachs & Co. (“GS&Co.”). GS&Co. is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (together with its affiliates, the “Firm”). The Firm, through MBD, offers a variety of investment products and arrangements including multi-asset pooled investment vehicles that have been privately placed and have not been registered under the Investment Company Act of 1940 (the “MBD Funds”) and other co-investment mandates, including separately managed accounts, co-investment opportunities (on a deal-by-deal basis) and co-investment vehicles (“Co-Investment Mandates”). MBD Funds and / or Co-Investment Mandates sponsored, managed or advised by MBD are referred to in this Brochure, as the context requires, as “Advisory Accounts.”

The Firm is a public company that is a bank holding company and a financial holding company under the Bank Holding Company Act of 1956, as amended (“BHCA”), and a worldwide, full-service financial services organization. MBD, together with its predecessor business areas, has been in operation since 1986. GS&Co. has been a registered investment adviser since 1981.

The Private Wealth Management Group is another business unit of GS&Co. and its advisory services are described in a separate brochure. Unless otherwise specified, references in this Brochure to the advisory services provided by GS&Co. mean advisory services provided by MBD.

### **Merchant Banking Division Advisory Services**

The Advisory Accounts make long-term investments, primarily in privately negotiated transactions, in the following asset classes: corporate equity, corporate credit, real estate equity, real estate credit and infrastructure equity. MBD manages each discretionary Advisory Account with full discretion to negotiate the purchase and sale of investments in accordance with the authority granted to GS&Co. under the offering materials, governing agreements and / or other correspondence for that Advisory Account (together, the “Offering Materials”). In addition, MBD also provides investment advice to separately managed accounts generally on a non-discretionary basis. In this case, the owner of the separately managed account may elect whether to participate in the investment recommended by MBD (by opting-in or opting-out of the investment) and, if it elects to make the investment, then the investment will be managed by MBD on a discretionary basis. Additional information about the specific types of investments made by a particular Advisory Account is found in the Offering Materials for each Advisory Account.

### **Investment Guidelines**

The investment guidelines and terms applicable to each Advisory Account are described in the relevant Offering Materials. Each MBD Fund generally provides investors with the right to opt out of investments if an investor is prohibited from making the investment for legal or regulatory reasons. A separately managed account client may impose additional restrictions on the management of its account, including by restricting particular securities or types of investments. As described above, separately managed accounts are generally non-discretionary.

### **Assets Under Management**

As of December 31, 2015, MBD had assets under management of approximately \$64,152,600,000 (which includes MBD’s capital available to invest, including recyclable capital and asset backed leverage) and regulatory assets under management of approximately \$71,128,300,000 (which includes uncalled capital, cash and receivables), all of which was managed on a discretionary basis. The assets under management and the regulatory assets under management also include the total estimated fair market value (before

illiquidity discounts) of all MBD investments (including MBD-managed investments held on the Firm's balance sheet and employee fund investments).<sup>1</sup>

## **Item 5 - FEES AND COMPENSATION**

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### **Fees for Advisory Services**

MBD generally receives an annual management fee from each Advisory Account. In addition, the Firm and / or its employees, directly or indirectly, may receive an incentive allocation or incentive fee (collectively, "Override") from an Advisory Account if the Advisory Account (or investments underlying such Advisory Account) has satisfied certain performance thresholds. The amount of fees charged by GS&Co. to an Advisory Account may vary, including by investment strategy and by asset class. Specific information about fees charged to an Advisory Account is provided in its applicable Offering Materials. MBD may agree to a reduction in the fees payable by an Advisory Account in certain circumstances depending, among other things, on the size and timing of the capital commitment.

### **Calculation and Deduction of Advisory Fees**

The management fee charged by MBD to an Advisory Account is generally calculated as a percentage of either (i) invested capital (inclusive or exclusive of leverage), (ii) committed capital during the period when the Advisory Account is permitted to make investments and thereafter on invested capital, or (iii) total asset cost. The management fee generally ranges from 0.5% to 2.0%. The Override is generally 10-20% of each Advisory Account's profits (at either an Advisory Account or investment level) after the Advisory Account (or investments underlying such Advisory Account) achieves a preferred return that generally ranges between 5% and 10% depending on the Advisory Account. Generally, management fees and Override are not payable by funds raised for the benefit of the Firm's employees ("MBD Employee Funds") that, subject to applicable law, often invest in, or alongside, the Advisory Accounts and / or the Firm. MBD may also manage Advisory Accounts in connection with a specific investment, and the fees chargeable in connection with the investment, may differ from those described above.

Management fees are generally paid to MBD semi-annually from the assets in each Advisory Account using net proceeds from investment dispositions and / or current cash flow of an Advisory Account. MBD may, however, issue capital calls to investors for the payment of the management fees. In addition, in certain instances, MBD may decide to waive or defer management fees. Generally, no management fees are charged on investments during the period they are valued at zero. Moreover, management fees may be offset in respect of other fees received by MBD, which generally may include monitoring fees, whether or not accelerated, transaction or sponsor fees, break-up fees and commitment fees. The Override is generally paid to the Firm and / or its employees from time to time out of proceeds from investment dispositions received by the Advisory Account. Specific information about the management fee and Override charged to each Advisory Account (and any management fee offsets) is provided in the Advisory Account's Offering Materials.

### **Other Fees Payable to MBD**

MBD may charge Advisory Accounts and / or Portfolio Companies a sponsor or transaction fee in connection with acquisitions, dispositions and certain financings and recapitalizations. These fees generally are structured as payments of a percentage of either the enterprise value of a company, in the case of an acquisition or disposition, or the aggregate amount of the financing, in the case of financings or recapitalizations. Over the life of an investment, MBD may receive multiple sponsor or transaction fees with respect to an investment. MBD may also charge Portfolio Companies annual monitoring fees (e.g., fees for time regularly devoted to a Portfolio Company). In certain cases, monitoring fees may be accelerated in connection with the sale or initial public offering of the underlying Portfolio Company. In such a case, MBD may receive a payment equal to all or some portion of future annual monitoring fees.

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<sup>1</sup> The assets under management and the regulatory assets under management exclude any accounts managed by any business unit, division or affiliate of GS&Co other than MBD.

MBD expects to generally offset each investor's pro rata share of accelerated monitoring fees against the applicable management fee.

Furthermore, MBD may receive commitment fees and break-up fees in connection with investments in Portfolio Companies, or potential investments. MBD expects to generally offset each investor's pro rata share of such fees against the applicable management fee.

In addition, the Firm's officers or employees may receive fees, stock or other equity securities paid and granted to directors on the boards of directors of Portfolio Companies (which generally are held for the benefit of the Firm). Additional information regarding the above fees and / or the portion thereof shared with Advisory Accounts is disclosed in the Offering Materials for such Advisory Account.

Each investor's pro rata share of the offsets described herein will be calculated based on such investor's indirect interest in the applicable Portfolio Company, and the offsets attributable to the Firm, MBD Employee Funds and / or other investors in an Advisory Account that are not charged any management fees will not be shared with other investors.

### **Investment Banking, Lending and Other Service Fees**

Subject to applicable law, the Firm may perform investment banking and other services for (i) Advisory Accounts, (ii) Portfolio Companies and / or (iii) other parties in connection with investments in Portfolio Companies or otherwise. These services may include underwriting, merger advisory, other financial advisory, lending or otherwise raising leverage, placement agency, selling agency, foreign currency hedging, brokerage and asset management services. In some cases, the fees for the foregoing services will be charged directly to an Advisory Account. In many of the cases, the services will be provided to Portfolio Companies (rather than directly to an Advisory Account) and will be paid for by the Portfolio Company. In this regard, the Firm may provide various services to a Portfolio Company over the life of the investment and receive multiple fees. The Firm receives what it believes to be customary compensation for its services; however, this compensation may not be negotiated and, from time to time, may be more or less than what a comparable third party might charge. This compensation may include brokerage fees, trading commissions, financing or commitment fees, financial advisory fees, fees in connection with mergers and acquisitions, restructurings and refinancings. The Firm, including its personnel, has an interest in obtaining fees and other amounts for such services which are favorable to the Firm. Fees and other compensation paid to the Firm in respect of these types of services are not shared with the Advisory Accounts or their investors, and, subject to applicable law, details of such fees and other compensation are not typically disclosed to the Advisory Accounts.

Further, certain affiliates of GS&Co., such as Goldman Sachs Realty Management, LLC ("GSRM"), may perform a variety of services for the Advisory Accounts and / or for Portfolio Companies. These services vary depending on the Advisory Account, but they may include, among other things, sourcing, acquisition, asset management, underwriting, due diligence, financing and disposition of real estate investments. In exchange for these services, GSRM will generally receive cost, or cost plus profit, reimbursement (including an allocable portion of the Overhead Costs of GSRM) as further described in the Form ADV filed by GSRM with the United States Securities and Exchange Commission ("SEC") and / or as outlined in the Offering Materials of the applicable Advisory Accounts. With respect to certain Advisory Accounts or the investments of certain Advisory Accounts, GSRM may receive a fixed fee in lieu of cost, or cost plus profit, reimbursement. In other instances, GSRM may receive a fee in addition to cost reimbursement or fixed fee, including incentive or disposition fees (based on performance hurdles).

### **Prepaid Fees**

MBD generally does not charge Advisory Accounts fees in advance.

### **Other Expenses**

An Advisory Account generally bears all or a portion of the expenses incurred in connection with its organization and the offering of its interests to investors, as described in the Offering Materials. In

addition, the Advisory Account would generally bear the ongoing expenses it incurs, unless otherwise stated in the Offering Materials.

Expenses charged to the Advisory Accounts may include:

- (i) investment-related expenses, including expenses relating to identifying, evaluating, valuing, structuring, purchasing, monitoring, servicing, and harvesting of investments and potential investments (including travel expenses relating to the foregoing);
- (ii) debt-related expenses, including expenses related to raising leverage, refinancing, and servicing debt and the cost of compliance with lender requests (including travel expenses relating to the foregoing);
- (iii) expenses related to hedging, including currency, interest rate and / or other hedging strategies;
- (iv) third-party legal, tax and accounting expenses, including expenses for preparation of annual audited financial statements, tax return preparation, routine tax and legal advice, and legal costs and expenses associated with indemnity, litigation, claims, and settlements;
- (v) consultant fees and expenses (as described further below);
- (vi) insurance premiums (which insurance may cover numerous Advisory Accounts, in which case each Advisory Account is responsible for a share of the premiums);
- (vii) expenses related to compliance by an Advisory Account with any applicable law, rule or directive or any other regulatory requirement, or compliance with the foregoing requirements by MBD or its affiliates to the extent such compliance relates to an Advisory Account's activities;
- (viii) fees payable to the Firm for loan servicing, tax services and accounting services provided by the Firm to Advisory Accounts, which represent an allocable portion of Overhead Costs of the departments providing such services; and
- (ix) any other reasonable expenses that may be authorized by the Offering Materials or that may be reasonably necessary or appropriate in managing an Advisory Account.

Individual consultants or advisors (some of whom may be former employees of the Firm) may be engaged by MBD on behalf of Advisory Accounts and / or Portfolio Companies to provide consulting or advisory services to MBD, Advisory Accounts and / or Portfolio Companies. These consultants or advisors may not work exclusively for MBD, the Advisory Accounts and / or the Portfolio Companies. Compensation paid to these consultants or advisors for consulting / advisory services is generally borne by the Advisory Account, is not offset against the management fee paid by the Advisory Account and may include an annual fee and / or a discretionary performance-related bonus. In addition to consultant / advisory fees, the consultant / advisor may also receive the opportunity to invest in Advisory Accounts or specific investments on a no-fee / no-Override basis. The scope of services provided under the consulting / advisory agreements may include serving on the board of Portfolio Companies. Consultants / advisors may receive compensation for serving on the board of a Portfolio Company in addition to the compensation noted above, which may be paid by a Portfolio Company or, in certain cases, by the Advisory Account or MBD.

MBD, on behalf of Advisory Accounts and their Portfolio Companies, expects to engage service providers (including attorneys and consultants), some of which may also provide services to the Firm and other clients managed by other parts of the Firm and their Portfolio Companies. MBD intends to select these service providers based on a number of factors, including expertise and experience, knowledge of related or similar products, quality of service, reputation in the marketplace, and price. These service providers may have business, financial, or other relationships with the Firm, which may or may not influence MBD's selection of these service providers for Advisory Accounts or their Portfolio Companies. In such circumstances, there may be a conflict of interest between the Firm and the Advisory Accounts (or their Portfolio Companies) if the Advisory Accounts (or their Portfolio Companies) determine not to engage or

continue to engage these service providers. Notwithstanding the foregoing, the selection of service providers will be conducted in accordance with MBD's fiduciary obligations to Advisory Accounts. The service providers selected by MBD might charge different rates to different recipients based on the specific services provided, the personnel providing the services, or other factors. As a result, the rates paid with respect to these service providers by Advisory Accounts or their Portfolio Companies, on the one hand, may be more or less favorable than the rates paid by the Firm, including MBD, on the other hand. In addition, the rates paid by MBD or the Advisory Accounts or their Portfolio Companies, on the one hand, may be more or less favorable than the rates paid by other parts of the Firm or clients managed by other parts of the Firm or their Portfolio Companies, on the other hand.

Furthermore, the Firm may hold investments in companies that provide services to Portfolio Companies, and, subject to applicable laws, it may refer or introduce those companies' services to Advisory Accounts' Portfolio Companies.

### **Compensation for the Sale of Securities and Other Investment Products**

Other than as described elsewhere in this Item 5, neither MBD nor MBD's supervised persons accept compensation for the sale of securities held by Advisory Accounts. Other business units of GS&Co. may receive this type of compensation from time to time. See Item 10 "*—Broker-Dealer, Municipal Securities Dealer, Government Securities Dealer or Broker*" and Item 11 "*—Principal, Agency Cross and Other Securities Transactions*" for additional information. MBD chooses the brokers with whom to execute transactions in accordance with its duty of best execution and may choose either affiliated or unaffiliated brokers, depending upon the circumstances and in conformance with applicable law. MBD does not reduce its management fees to offset execution charges paid to its affiliates.

### **Allocation of Expenses; Broken-Deal Expenses**

Expenses are generally allocated to Advisory Accounts and / or the Firm, depending on whose behalf the expenses are incurred. Where multiple Advisory Accounts and / or the Firm participate in a particular investment or collectively incur other expenses, MBD generally allocates investment-related and other expenses in a manner that MBD determines to be fair and equitable over time. Generally, in the case of investment-related expenses, such allocations will be made on a pro rata basis. However, where appropriate, MBD will specifically allocate investment-related or other expenses to one or more particular Advisory Accounts and / or the Firm.

Advisory Accounts (other than non-discretionary Advisory Accounts) may also be subject to expenses incurred with respect to the active consideration and pursuit of specific transactions that are not ultimately consummated ("broken-deal expenses"). Examples of broken-deal expenses for a particular non-consummated transaction may include (i) fees and expenses of legal, financial, accounting, consulting or other advisers in connection with conducting due diligence or otherwise pursuing such transaction, (ii) fees and expenses in connection with arranging financing for such transaction, (iii) deposits or down payments that are forfeited or paid as a penalty in connection with such transaction, and (iv) other expenses (including travel costs) incurred in connection with activities related to such transaction. Broken-deal expenses generally will be allocated in the manner that MBD determines to be fair and equitable, which generally will be pro rata (based on the amount of expected investment) across the Advisory Accounts for which a transaction was considered. However, in some cases, MBD may have offered (or have intended to offer) certain non-discretionary Advisory Accounts ("Non-Discretionary Co-investors") an opportunity to participate alongside other Advisory Accounts in a transaction that ultimately is not consummated. MBD would expect to bear the pro rata amount of the broken-deal expenses that would otherwise have been allocated to the Non-Discretionary Co-investors; however, such broken-deal expenses may be allocated to Advisory Accounts, based on MBD's best judgment.

## **Item 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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As described in Item 5, MBD may be entitled to receive performance-based fees from Advisory Accounts. MBD also manages certain Advisory Accounts that are not required to pay performance-based fees,



including MBD Employee Funds. Advisory Accounts that do not pay (or pay reduced) performance based fees may co-invest with Advisory Accounts that pay performance fees. The existence of performance-based fees at different rates, or subject to different hurdle rates, creates an incentive for MBD or its affiliates to favor Advisory Accounts that pay performance-based fees at higher rates (or subject to a lower hurdle rate) when allocating time, services, functions or investment opportunities among Advisory Accounts. MBD has adopted written policies and procedures designed to address conflicts of interest in allocating investment opportunities among the Advisory Accounts that it manages. However, no assurance can be made that these policies and procedures will have their desired effect.

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**Item 7 - TYPES OF CLIENTS**

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MBD provides investment advice to a range of individual and institutional clients worldwide.

The minimum amount investors must invest in an Advisory Account is set forth in the Advisory Account's Offering Materials and varies (generally ranging from \$1 million to \$500 million). This minimum may be reduced or waived by MBD, and MBD Employee Funds have lower minimum investment amounts. Investors must meet certain net worth, net asset or other sophisticated investor criteria set forth in various securities and commodities laws and regulations.

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**Item 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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**Methods of Analysis and Investment Strategies**

GS&Co., through MBD, together with its predecessor business areas, has nearly three decades of experience as a private equity investor. MBD has a history of investing in corporate equity for over 30 years, corporate credit for 20 years, real estate for 25 years and infrastructure equity for 10 years. MBD has a global presence and access to internally generated, proprietary investment opportunities. By utilizing investment professionals located around the world and its local market relationships, knowledge and expertise, MBD can source, assess and make opportunistic investments in different markets with a knowledgeable local perspective. The Firm, including the Investment Banking Division, maintains a broad network of relationships with companies, investment firms, investors, entrepreneurs and financial intermediaries around the world. Subject to regulatory restrictions and information barriers, these Firm relationships generate a substantial flow of opportunities which allow MBD to be selective in committing capital to investments in situations that MBD believes have attractive risk / reward characteristics.

The process of investing in (or lending to) a company is primarily carried out by (i) a team of investment professionals (the "Investment Team"), (ii) an investment committee comprised of the senior professionals in MBD and other senior Control-Side Professionals of the Firm (the "Investment Committee") and (iii) one or more other Firm committees, as may be applicable, such as the Acquisition and Disposition Review Committee, the Physical Commodity Review Committee and / or the Firmwide Investment Policy Committee. The Investment Team may also hire external advisors and consultants and seek advice from a network of professionals within the Firm. Once the Investment Team identifies an investment opportunity, it prepares a memorandum and presentation for the Investment Committee to review. Based on the analyses, investment thesis, results of due diligence, reputational considerations and recommendation presented at the Investment Committee meeting, the Investment Committee then determines whether MBD and / or any Advisory Account should make the investment. If the Investment Committee decides to pursue the opportunity, the Investment Team, in conjunction with external advisers, completes business, accounting, legal and other due diligence on the investment opportunity, helps structure the transaction and finalizes definitive agreements relating to the transaction. MBD monitors the performance of the investment after closing, with a focus on value creation. Members of the Investment Team may also serve on the board of directors of a Portfolio Company after the investment is made. As directors, these members will be in a position to monitor and focus on the company's performance and strategy. In this regard, having a director also helps MBD monitor the company's risk profile and potential reputational risk, including environmental, health and safety risks and compliance issues. During internal MBD meetings, the Investment Team discusses the potential exit timing of an investment. Typical exit methods for equity interests include: (i) sale through a public offering or a private placement; (ii) sale to a

strategic or financial buyer; and (iii) recapitalization. For credit investments, the exit process may also be completed through repayment or refinancing with a third party. Throughout the exit process, the Investment Team, in conjunction with the Investment Committee, typically negotiates the sale price, structures the exit of the investment and coordinates with external advisors involved in the exit process.

***Advisory Accounts should understand that all investment strategies and the investments made pursuant to the MBD's strategies involve risk of loss, including the potential loss of the entire investment in the account, which Advisory Accounts should be prepared to solely bear. The investment performance and the success of any investment strategy and / or particular investment can never be predicted or guaranteed, and the value of an Advisory Account's investments will fluctuate due to market conditions and other factors. The investment decisions made and the actions taken for Advisory Accounts will be subject to various market, liquidity, legal, regulatory, currency, economic, political and other risks, and investments may lose value. MBD generally expects that during the wind-down phase following the conclusion of an Advisory Account's term, which may take several years due to the illiquid nature of the investments underlying the Advisory Accounts, Advisory Accounts will continue to bear management fees and expenses, in addition to Override.***

### **Material Risks for Investment Strategies**

***Introduction.*** The following description is a list of risk factors that relate to MBD's investment strategies. This list does not purport to be a complete list or explanation of the risks involved in MBD's business. In addition, as each Advisory Account's investment program develops and changes over time, there may be additional and / or different risk factors. Prior to making an investment in an Advisory Account, prospective investors are encouraged to read the Offering Materials for the applicable Advisory Account and are encouraged to consult with their own advisors before deciding whether to invest in an Advisory Account.

***Inability to Meet Investment Objective or Execute Investment Strategy.*** The success of an Advisory Account depends on MBD's ability to identify and select appropriate investment opportunities, as well as the ability to acquire, manage and exit those investments effectively. The market for investments targeted by the Advisory Accounts can be highly competitive. Additional sponsors or competitors may enter the market, increasing competition and making it difficult for MBD to find attractive investment opportunities. In addition, MBD may not be able to obtain as favorable terms as it would otherwise be able to in a less competitive investment environment. Identifying attractive investment opportunities is difficult and involves a high degree of uncertainty. Even if investment opportunities are identified, there is no assurance that an Advisory Account's efforts to acquire interests in those investments will be successful. An Advisory Account's inability to meet its objectives and execute its strategy may have a negative effect on the investment results of an Advisory Account.

***Investments in Illiquid Investments.*** The investments of the Advisory Accounts are likely to be illiquid and equity investments are unlikely to provide current income. Illiquidity may result from the absence of an established market for investments as well as legal and contractual restrictions on their resale by the Advisory Account. Even if the investments of the Advisory Accounts are successful, they are unlikely to produce a realized return for a period of years. In addition, the Offering Materials of the Advisory Accounts generally provide that MBD may take appropriate reserves in distributing any income or gains, which can delay distributions to the investors.

***Market Risk.*** The value of the investments of the Advisory Accounts may go up or down in response to an array of market factors, including the performance of particular industry sectors or governments and / or general economic conditions, including foreign exchange and interest rates.

***Lack of Diversification.*** There can be no assurance that MBD, on behalf of Advisory Accounts, can make a suitable number of investments. Consequently, the aggregate returns realized by investors may be substantially adversely affected by the unfavorable performance of a small number of these investments. This risk is magnified for Advisory Accounts relating to a specific investment.

**Possibility of Differing Returns.** MBD may make investments on behalf of an Advisory Account alongside the Firm and other Advisory Accounts sponsored or managed by MBD. Although uncommon, if the Firm or other Advisory Accounts make such investments at different times and / or on different terms or exit an investment at different times and / or on different terms, the Firm and the various Advisory Accounts would likely realize different investment returns. In addition, the Firm and other Advisory Accounts may also realize different investment returns if the Firm or other Advisory Accounts invest, on an unlevered basis, in an investment which is made by an Advisory Account using leverage, and vice versa, and such differences may be substantial.

**Firm Co-Investments Alongside Advisory Accounts.** The Firm may determine in certain instances, based on regulatory capital or other considerations, to co-invest alongside the investments to be made by an Advisory Account, rather than committing capital to the Advisory Account (e.g., an MBD Fund). For example, the Firm may co-invest alongside an MBD Fund when raising the Fund or, if the MBD Fund already exists, the Firm may restructure its investment in the fund to a co-investment alongside it. Such an arrangement could lead to certain risks and / or conflicts of interest among and between the Advisory Accounts, its investors and the Firm. For example, the Firm may determine, in its sole discretion, not to participate in an investment opportunity that is otherwise suitable for an Advisory Account and may cause the Advisory Account not to pursue the investment. In addition, any Firm co-investment alongside an Advisory Account may be structured in a way that the Firm would not utilize the credit facility, if any, related to the Advisory Account.

In addition, in certain circumstances, the entities comprising an MBD Fund (e.g., several entities in an MBD Fund family) may enter a cooperation or similar agreement with the Firm, in its capacity as the investment manager for such MBD Fund. Such agreement may provide that in connection with the acquisition, management and harvesting of investments, MBD and / or the Firm will consider the interests and objectives of all the entities parties to the agreement as a whole, rather than the interests and objectives of an individual Advisory Account. Such coordination may expose investors in a particular entity to risks and potential conflicts of interest, including as a result of the Firm causing the sale of an investment at a time that might not be the most advantageous for a particular entity.

**Reliance on Financial Projections.** When making investments, MBD may rely on the accuracy of certain financial projections to analyze the viability and / or attractiveness of a particular investment opportunity. Projections are generally limited to estimates of future financial data and are reliant on third-party data and assumptions made at a certain point in time. There can be no guaranty that projected results will be realized and actual results may materially differ from projections.

**Compensation Arrangements.** In some Advisory Accounts, management fees charged by MBD may be calculated as a percentage of invested capital. This may create an incentive for MBD to invest capital earlier than if management fees were calculated based on capital commitments, and / or to hold investments that have poor prospects for improvement in order to receive ongoing management fees. In addition, as mentioned above MBD does not charge management fees on investments during the period they are valued at zero; therefore, MBD may have an incentive not to value an investment at zero. If an Advisory Account achieves certain performance thresholds, the Firm and / or its employees may receive Override from the Advisory Account. This arrangement may create an incentive for MBD to cause the Advisory Account to make investments that are riskier or more speculative than would be the case if this arrangement were not in effect. In addition, MBD may face a conflict of interest in valuing the securities or assets in the portfolio that lack a readily ascertainable market value as the value of the assets held by an Advisory Account may affect the calculation of the Override. Further, MBD's fee structure may create an incentive for MBD to defer the disposition of poorly performing investments in order to defer any potential clawback obligation or possibly receive a larger Override if the value of the investment increases in the future. MBD generally expects that during the wind-down phase following the conclusion of an Advisory Account's term, which may take several years due to the illiquid nature of the investments underlying the Advisory Accounts, Advisory Accounts will continue to bear management fees and expenses, in addition to Override. MBD may offset some or all of certain fees it receives from Portfolio Companies or Advisory Accounts (e.g., monitoring fees, whether or not accelerated, transaction or sponsor fees, break-up fees and commitment fees (see Item 5 above)) against management fees otherwise payable by Advisory Accounts. If MBD provides services and receives fees that could be

characterized as more than one type of fee, MBD may be incentivized to characterize those fees in a way that minimizes the management fee offset.

**Investment Advisory Committees.** MBD, on behalf of an Advisory Account, may establish an Investment Advisory Committee consisting of selected investors who are not employees, officers, directors, partners, consultants or affiliates of the Firm. Members of the Investment Advisory Committee (the “IAC Members”) may have direct or indirect interests in the activities of the Firm and its affiliates, including other Advisory Accounts, or in investments and instruments, in some cases similar to those in which an Advisory Account invests. While an Investment Advisory Committee represents an Advisory Account in connection with, among other things, any matter determined to require the consent of such Advisory Account under the Advisers Act or certain other conflicts of interest, an IAC Member will be under no obligation to act in the best interests of the Advisory Account as a whole and may act only in the best interests of the investor with whom such IAC Member is affiliated. This may result in potential conflicts of interest.

**Business Dealings with Former Employees.** The Firm may, in its discretion, recommend the Advisory Accounts and / or certain of their Portfolio Companies to have ongoing business dealings, arrangements or agreements with persons who are former employees of the Firm. The Advisory Accounts and / or their Portfolio Companies may bear, directly or indirectly, the costs of such dealings, arrangements or agreements. This recommendation may create a conflict of interest between the Firm and the Advisory Accounts (or their Portfolio Companies) if the Advisory Accounts (or their Portfolio Companies) determine not to engage in or continue such dealings, arrangements or agreements.

**Valuation Risk.** General movements in prevailing market conditions could have a substantial impact on the value of investments and investment opportunities generally. Certain securities and other assets in which Advisory Accounts may invest may not have a readily ascertainable market value and will be valued by MBD in accordance with US generally accepted accounting principles or another method as described in such Advisory Account’s Offering Materials. The value of assets that lack a readily ascertainable market value may be subject to later adjustment.

**Public Securities.** In some cases, an Advisory Account may be limited in its ability to purchase or sell investments in public securities because the Firm may have material, non-public information regarding the issuers of those securities or as a result of other Firm policies. The inability to purchase or sell securities in these circumstances may affect the investment results of an Advisory Account.

**Hedging Transactions.** An Advisory Account may engage in currency hedging, interest rate hedging or other hedging strategies in order to manage risk. While these transactions may reduce certain risks, the transactions themselves entail certain other risks. Hedging against a decline in the value of a portfolio position due to foreign exchange movement does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of those positions decline, but instead establishes other positions designed to gain from those same developments, thus offsetting the decline in the portfolio positions’ value due to foreign exchange movement. These types of hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. While an Advisory Account may enter into hedging transactions to seek to reduce risk, unanticipated changes in currency exchange rates, interest rates or public security prices may result in a poorer overall performance for the Advisory Account than if it had not engaged in any hedging transaction. In addition, if the fair market value of the investment changes for reasons other than foreign exchange movements, the associated foreign exchange risk may be over or under hedged, depending on the change to the fair market value of the investment and the value of the corresponding foreign exchange hedge. There is no guarantee MBD will use hedging techniques or that those techniques will be successful when used. In addition, certain Advisory Accounts may choose not to use MBD to hedge the risk associated with their MBD managed investments.

The Commodity Futures Trading Commission (the “CFTC”) and various exchanges have rules limiting the maximum long or short positions which any person or group may own, hold or control in any given futures contract or option on such futures contract. Any such limits may prevent MBD from acquiring positions on behalf of an Advisory Account that might otherwise have been desirable. In addition, it is possible that, in applying such limits, the CFTC and some exchanges will require aggregation of an Advisory Account’s

positions in futures or options on futures with positions held or controlled by other entities and / or accounts affiliated with MBD. Under such circumstances MBD could be limited in use of futures or options on futures or liquidate positions on behalf of an Advisory Account. Additionally, due to certain provisions of the Volcker Rule, hedging transactions done on behalf of certain Advisory Accounts may not be able to be entered into with the Firm as counterparty, however, these provisions do not restrict MBD from entering into hedging transactions with the Firm as counterparty for investments made on the Firm's balance sheet. Different counterparties may charge different fees for such hedging arrangements and as a result, the Firm and the various Advisory Accounts may realize different investment returns.

**Leverage.** Certain Advisory Accounts may incur indebtedness or provide guarantees in connection with investments. Furthermore, certain Advisory Accounts may incur short-term indebtedness for the purpose of financing an investment prior to the receipt of capital contributions from investors. In the event of a failure to pay or other event of default under any of the indebtedness associated with a particular Advisory Account, the lenders could require the investors to fund their entire remaining capital commitments. In addition, in the event that the lenders require investors whose capital commitments have been pledged to fund their capital commitment to repay indebtedness, the failure of certain of those investors to honor their capital commitments could result in the remaining investors' payments exceeding their pro rata share of the indebtedness. Finally, lenders could require an Advisory Account to sell some or all of its investments, or could foreclose on those investments prematurely, causing the Advisory Account to suffer losses.

The extent to which an Advisory Account uses leverage may have important consequences to its investors, including the following: (i) greater fluctuations in the net asset value of the account, (ii) use of cash flow (including capital contributions) for debt service and related costs and expenses, rather than for additional portfolio investments, distributions to investors or other purposes, (iii) increased interest expenses if interest rate levels were to increase, and (iv) in certain circumstances, prematurely disposing of Portfolio Companies to service the debt obligations.

Loans to an Advisory Account may be made by the Firm (subject to applicable laws) or any third party, and any such loans will be made on such terms, taken as a whole, as MBD determines to be fair and reasonable to the Advisory Account. In addition, one or more investors in an Advisory Account may provide leverage to such Advisory Account, and may receive fees, interest and other compensation, including management fee and override reductions, in exchange for providing such leverage. In the event of financial distress of such Advisory Account, certain conflicts of interests may arise as among the investors who have exclusively made an equity investment in such Advisory Account, on the one hand, and the investors in such Advisory Account who have also provided leverage, on the other hand. One or more investors in Advisory Accounts may also provide loans or other types of financings to Portfolio Companies.

**Dilution from Subsequent Closings.** Where applicable, investors subscribing for interests at subsequent closings of an Advisory Account generally will participate in existing investments, diluting the interest of existing investors therein. Although such investors generally will contribute their pro rata share of previously made capital calls (plus an additional amount thereon), there can be no assurance that this payment will reflect the fair value of the Advisory Account's existing investments at the time such additional investors subscribe for interests. In addition, investors subscribing for interests at subsequent closings may pay different fees than investors admitted at the initial closing of an Advisory Account.

**Regulatory, Tax and Other Legal Risks.** Legal, tax and regulatory changes could occur during the term of an Advisory Account that may adversely affect the Advisory Account and its investment results, or some or all of the investors in an Advisory Account.

The Firm is regulated as a bank holding company under the BHCA, which generally restricts bank holding companies from engaging in business activities other than the business of banking and certain closely related activities. The Firm has elected to become a financial holding company under the BHCA and, as such, may engage in a broader range of financial and related activities than it would otherwise be able to, as long as the Firm continues to meet certain eligibility requirements. The BHCA and other applicable banking laws, rules, regulations and guidelines, and their interpretation and administration by the

appropriate regulatory agencies, may restrict the transactions and relationships between the Firm, on the one hand, and an Advisory Account, on the other hand, and may restrict the types of investments that may be made by, and the activities of, an Advisory Account. In addition, the Firm and Advisory Accounts generally are not permitted under applicable law to have active roles in the day-to-day management of Portfolio Companies.

The Firm expects that each Advisory Account will conduct its activities in a manner that is consistent with the BHCA. However, the bank regulatory requirements applicable to the Firm and the Advisory Account may have a material or adverse effect on an Advisory Account or its investments. For instance, an Advisory Account may be subject to certain BHCA regulations that restrict its ability to invest in certain investments, restrict its ability to be involved in the management of certain investments or limit the length of time an Advisory Account may hold an investment, without prior regulatory approval or qualification for certain exemptions under the BHCA. The Advisory Accounts may be subject to certain restrictions when considering investments in regulated industries, such as banking, insurance, energy or communications, because of the impact of these investments on the Firm. For example, there may be limits on the aggregate amount of investment by affiliated investors that may not be exceeded in certain regulated industries without the grant of a license or other regulatory or corporate consent or, if exceeded, may cause the Advisory Account, the Firm, and / or its clients to suffer disadvantages or business restrictions. As a result, the terms of the Advisory Account or investment may restrict or limit transactions or exercise of rights for the Advisory Account, or limit the amount of voting securities purchased, or restrict the type of governance rights it or MBD acquires or exercises in connection with its investments in regulated industries. In addition, these requirements may require that an Advisory Account be dissolved or dispose of investments (or that the Firm's investment in or alongside an Advisory Account be disposed of) earlier than previously contemplated. Additionally, if the Firm no longer meets the eligibility requirements to be a financial holding company, an Advisory Account may be limited in its ability to make certain investments and could be required to terminate certain activities and / or sell certain investments if the Firm remained ineligible for a prolonged period.

Furthermore, Section 619 of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and its implementing regulations, known as the "Volcker Rule," restrict banking entities, such as the Firm, absent an applicable exclusion or exemption, from acquiring or retaining as principal any equity, partnership or other ownership interests in, or sponsoring, a private equity fund, hedge fund or other fund that relies solely on Section 3(c)(1) or 3(c)(7) of the Investment Company Act (a "Covered Fund").

Under the asset management exemption to the Volcker Rule, the Firm may sponsor and advise a Covered Fund but is prohibited from owning more than 3% of the outstanding ownership interests of Advisory Accounts that are Covered Funds. The Firm may not guarantee, assume or insure the obligations or performance of any Advisory Account that is a Covered Fund. In addition, the Firm is not permitted to make a loan or extension of credit to a Covered Fund that is sponsored or advised by the Firm, to purchase assets from such a Covered Fund, or to enter into certain other transactions that cause the Firm to have credit exposure to such a Covered Fund. Certain other transactions between the Firm and an Advisory Account that is a Covered Fund must be on terms and under circumstances, including credit standards, that are substantially the same, or at least as favorable to the Advisory Account, as those prevailing at the time for comparable transactions with or involving other nonaffiliated companies, which, among other things, may limit the ability of the Firm, including MBD, to furnish services to an Advisory Account that is a Covered Fund.

The Volcker Rule also prohibits any banking entity, including the Firm, from engaging in certain activities that would (i) subject to certain mitigants, involve or result in a material conflict of interest between the banking entity and its clients, customers or counterparties, (ii) result, directly or indirectly, in a material exposure by the banking entity to high-risk assets or high-risk trading strategies, or (iii) pose a threat to the safety and soundness of the Firm or the financial stability of the United States. As a result, the Advisory Accounts may also be prohibited from engaging in such activities.

In December 2014, the Fed issued an order to extend applicability of the Volcker Rule to legacy Covered Funds (e.g. Covered Funds in place before December 31, 2013) until July 21, 2016 and indicated that it

will grant another extension until July 21, 2017 for such legacy funds. During the conformance period, banking entities must work to bring their activities and investments into conformance with the Volcker Rule. Efforts to bring Advisory Accounts that are legacy Covered Funds into conformance with the Volcker Rule in the future may have a material or adverse effect on the operation, value or investments of such Advisory Accounts.

The Firm's policies and procedures are designed to identify and limit exposure to material conflicts of interest, including its activities related to the Advisory Accounts. Any requirements or restrictions imposed by the Firm's policies and procedures or by the Volcker Rule agencies could materially adversely affect the Advisory Accounts, including because the requirements or restrictions could result in, among other things, the Advisory Accounts foregoing certain investments or investment strategies or taking or refraining from other actions, any of which could disadvantage the Advisory Accounts.

Certain of the Advisory Accounts are not Covered Funds, and therefore are generally scoped outside the restrictions under the Volcker Rule. However, if (i) one or more of the regulatory agencies implementing the Volcker Rule were to disagree with the treatment of any Advisory Account as excluded from the definition of "covered fund," (ii) there are changes in the laws or rules governing the Investment Company Act and / or Volcker Rule status of any Advisory Account, or (iii) such agencies or their staffs provide more specific or different guidance regarding the application of relevant provisions of, and rules under, the Investment Company Act and / or Volcker Rule, the Firm or one or more of the Advisory Accounts would need to adjust their operating strategies or assets and may need to effect sales of assets in a manner that, or at a time or price at which, it would not otherwise choose in order for such Advisory Account to not be deemed to be a Covered Fund under the Volcker Rule. In the event that any Advisory Account were to be deemed a Covered Fund, there could be a material or adverse effect on the operation of such Advisory Account. In such an event, MBD could take any action it deems necessary to remedy such situation, including additional amendments or dissolving and liquidating the Advisory Account, and the Firm could be forced to reduce its investment alongside the Advisory Account to no more than 3% or the maximum amount permitted under applicable law.

An Advisory Account and / or some or all of its investors also may be adversely affected by other changes in the interpretation or enforcement of existing laws and rules (including the European Alternative Investment Fund Managers Directive). As an affiliate of the Firm, a regulated entity, an Advisory Accounts' activities may be subject to new or revised laws, regulations or initiatives that may not be applicable to an investor unaffiliated with a regulated entity. Compliance with any new or revised laws or regulations (including compliance with reporting requirements of the Bureau of Economic Affairs) could be difficult and expensive, and may have an adverse effect on an Advisory Account and its investors and / or the manner in which MBD conducts business, including the types of investments an Advisory Account may make. New or revised laws or regulations may also subject an Advisory Account or some or all of its investors to increased taxes or other costs.

In addition, the Advisory Accounts are intended to be operated in a manner so as to not be regulated as an "investment company" under the Investment Company Act, which contains substantive legal requirements that regulate the manner in which investment companies are permitted to conduct their business activities. Changes in the law or regulations or changes in the interpretation of the law or regulations could result in the Advisory Accounts becoming subject to the Investment Company Act, which could have adverse consequences for investors.

Each prospective investor is encouraged (i) to be aware that tax laws and regulations are changing on an ongoing basis and (ii) that these laws and regulations may be changed with retroactive effect. Moreover, the interpretation and application of tax laws and regulations by certain tax authorities may not be clear, consistent or transparent. Uncertainty in the tax law may require an Advisory Account to accrue potential tax liabilities even in situations where an Advisory Account and / or its investors do not expect to be ultimately subject to those tax liabilities. Moreover, accounting standards and / or related tax reporting obligations may change, giving rise to additional accrual and / or other reporting obligations. Each prospective investor is also encouraged to be aware that other developments in the tax laws of the United States could have a material effect on the tax consequences to investors, the Advisory Accounts and / or an Advisory Account's investments and that investors may be required to provide certain additional

information to the Firm (which may be provided to the Internal Revenue Service or other taxing authorities) or may be subject to other adverse consequences as a result of that change in tax laws.

Each prospective investor is advised that it will or may be required to take into account its distributive share of all items of income, gain, loss, deduction and credit, whether or not distributed. Because of the nature of an Advisory Account's investment activities, an Advisory Account may generate taxable income in excess of cash distributions to investors.

In any given year, a prospective investor may incur taxable income in excess of cash received from an Advisory Account. The specific U.S. federal income tax consequences to an Advisory Account and its investors will depend upon the types of investments made and the manner in which those investments are structured, among other considerations. An Advisory Account may generate losses, deductions, and other tax attributes that may be subject to special limitations and other complex rules.

Furthermore, in connection with general investing activities, the Firm and / or the Advisory Accounts may become involved in litigation. There can be no guarantee that such litigation will be resolved in favor of the Firm and / or the Advisory Accounts and such litigation could be prolonged and / or costly and could subject the Firm and / or the Advisory Accounts to reputational risk.

***Advisory Account Consent Requirements.*** The Firm acts as an underwriter, placement agent, originator, and / or arranger in various markets and for various asset classes and instruments. Advisory Accounts may have the opportunity to invest in transactions in which the Firm acts in one or more of these roles, in connection with which the Firm may be a principal opposite Advisory Accounts or with respect to which the Firm may receive a fee or other compensation. The consummation of any such transaction or the payment of any such fee and / or certain other conflicts of interest may require the consent of the Advisory Account (or an Investment Advisory Committee on behalf of the Advisory Account) or other independent party pursuant to applicable law and the guidelines or governing documents applicable to such Advisory Accounts. In such cases, the Advisory Account may only have the ability to make the investments if MBD receives the required consent. In addition, MBD may determine not to seek such consent due to timing, logistical or other considerations, in which event the Advisory Account will not have the opportunity to make the investments.

## **Material Risks for Particular Types of Securities**

### **Risks Associated with Investing in the Advisory Accounts Generally**

***Operating and Financial Risks of Portfolio Companies.*** An Advisory Account's investments in Portfolio Companies may involve a high degree of business and financial risk. Some of the Portfolio Companies may be highly leveraged. These companies may be subject to restrictive financial and operating covenants that may impair the ability of these companies to finance their future operations and capital needs. As a result, these companies may have limited flexibility to respond to changing business and economic conditions and to business opportunities. Leverage may have important consequences to the Portfolio Companies and an Advisory Account. A leveraged company's income and equity will tend to increase or decrease at a greater rate than if borrowed money were not used. In addition, a Portfolio Company with a leveraged capital structure may be subject to increased exposure to adverse economic factors such as a significant rise in interest rates, a severe downturn in the economy or deterioration in the condition of that Portfolio Company or its industry. In the event that a Portfolio Company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of an Advisory Account's investment in a Portfolio Company could be significantly reduced or even eliminated.

Moreover, Portfolio Companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, and / or a larger number of qualified managerial and technical personnel. Some of the Portfolio Companies may (i) be operating at a loss or have significant variations in operating results, (ii) be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence, (iii) require substantial additional capital to support their operations, to finance expansion or to maintain their



competitive position, (iv) be in an early stage of development, (v) not have a proven operating history, (vi) otherwise have a weak financial condition that could result in insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant Portfolio Company, or (vii) be subject to a disruptive cyber attack or other information security event, each of which could materially adversely affect the investment results of an Advisory Account.

In addition, the Firm engages in a broad range of business activities and invests in Portfolio Companies whose operations may be substantially similar to and / or competitive with the Portfolio Companies in which Advisory Accounts have invested. The performance and operation of such competing businesses could conflict with and adversely affect the performance and operation of Advisory Accounts' Portfolio Companies. From time to time, and subject to applicable law, the Firm may recommend Portfolio Company services to other Portfolio Companies; it is possible that these services may not be the best available to the Portfolio Companies.

***Reliance on Portfolio Company Management.*** Although MBD may seek to be represented on the board of directors of its Portfolio Companies, there is no assurance that this representation, if sought, will be obtained. Furthermore, even in cases where MBD or an Advisory Account may have certain rights to (i) be represented on the board of directors of Portfolio Companies, and / or (ii) participate in certain significant business decisions and / or other management rights, MBD and an Advisory Account generally are not permitted under applicable law to have active roles in the day-to-day management of those companies. Accordingly, the success or failure of an Advisory Account's Portfolio Companies will depend to a significant extent on their management.

***Risks of Global Investing Generally.*** Certain Advisory Accounts invest capital outside the U.S. in non-U.S. companies. These investments involve additional risks compared with investing exclusively in the United States.

Because investments in non-U.S. companies may involve non-U.S. dollar currencies, the Advisory Accounts may be affected unfavorably by changes in currency rates (including as a result of the devaluation of a foreign currency) and may incur transaction costs in connection with conversions between various currencies.

Depending on where they are located, Portfolio Companies may be subject to accounting, auditing and financial reporting requirements that differ, including with respect to completeness and quality of information, from those applicable in the United States, and, accordingly, the financial statements of a company may not reflect its financial position or results of operations in the way that this information would be reflected had the financial statements been prepared in accordance with U.S. Generally Accepted Accounting Principles. Additionally, for companies that keep accounting records in local currency, some countries' inflation accounting rules require, for both tax and accounting purposes, that certain assets and liabilities be restated on the company's balance sheet in order to express items in terms of constant purchasing power, while others do not permit this restatement. Financial information that is incomplete may adversely affect an Advisory Account's investment decisions.

It also may be difficult to enforce contractual or other legal rights in certain countries. For example, legal proceedings in certain jurisdictions may take longer to conclude than similar proceedings in other countries. Moreover, once a judgment is obtained, a variety of causes may make enforcement or collection of that judgment difficult.

Investment in certain countries may be restricted or controlled to varying degrees. These restrictions or controls may at times limit investment and may increase the risk associated with the investments, including adversely impacting the Advisory Accounts ability to sell its investments in Portfolio Companies. For example, certain countries may: (i) require governmental approval prior to investment in companies or industries deemed important to national interests; (ii) limit the amount of investment by persons who are not citizens; (iii) limit investments by persons who are not citizens to only a specific class of securities of a company that may have less advantageous terms than the classes available for purchase by citizens of the country; and / or (iv) impose additional taxes on investors who are not citizens, including expropriation and / or confiscatory taxes, as well as withholding taxes and import duties. In addition, the repatriation of

both investment income and capital from certain countries may be subject to restrictions such as government consent or a waiting period. These measures could adversely affect the returns associated with certain investments.

***Nature of Bankruptcy and Other Proceedings.*** Investments in Portfolio Companies that become debtors in reorganization or liquidation proceedings under U.S. bankruptcy law present a number of risks not normally applicable to investments in financially sound Portfolio Companies. These risks include adverse and permanent effects of the proceedings on the Portfolio Company, such as the loss of its market position and key personnel, the Portfolio Company otherwise becoming incapable of restoring itself as a viable entity and, if converted to a liquidation, a possible liquidation value of the Portfolio Company that is less than the value that was believed to exist at the time of the investment. Many events in bankruptcy proceedings are adversarial and the duration of a bankruptcy case is generally difficult to predict. Stockholders, creditors and other interested parties are all entitled to participate in bankruptcy proceedings and will attempt to influence the outcome for their own benefit. The bankruptcy courts have extensive power and, under some circumstances, may alter contractual obligations of a bankrupt company. The reorganization of a company under U.S. bankruptcy law usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve legal, professional and administrative costs to the company and it is subject to unpredictable delays. An Advisory Account's return on investment can be impacted adversely by these delays. The debt of companies in reorganization or liquidation will in most cases not pay current interest. Also, certain claims, such as for taxes, may have priority by law over the claims of certain creditors. In addition, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of these actions. In addition, under certain circumstances, payments to an Advisory Account and distributions by an Advisory Account to its investors may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

***Dependence Upon Investment Manager.*** Investors in an Advisory Account generally have no right or power to participate in the management or control of the business of such Advisory Account and thus must depend solely upon the ability of MBD with respect to making, managing and exiting investments. In addition, investors will generally not have an opportunity to evaluate the specific investments made by the Advisory Accounts or the terms of any investment in advance of making the investment. Investors in Co-Investment Mandates, in certain circumstances, have greater rights with respect to these matters than investors in MBD Funds.

From time to time, there may be personnel changes within MBD or the Investment Committee. The loss of investment professionals by MBD could have a material or adverse effect on Advisory Account performance.

***Absence of Recourse to the Investment Manager and General Partner.*** Applicable Advisory Account Offering Materials limit the circumstances under which the Firm and its employees, officers and affiliates can be held liable to the relevant Advisory Account. As a result, investors may have a more limited right of action in certain cases than they would in the absence of such provisions.

***Restriction on Transferability and Withdrawal.*** Investors in an Advisory Account should be prepared to retain their interests until the Advisory Account liquidates. An investor generally may not, voluntarily or involuntarily, sell, assign, encumber, mortgage or transfer his or her interest except in the limited manner prescribed by the offering materials for the Advisory Account. Investors may not withdraw capital or withdraw from the Advisory Account prior to its termination. Any transfer by an investor without the prior written consent of the general partner of the Advisory Account will be void and subject to cancellation. However, certain separately managed accounts have the ability to terminate commitments on specified days' notice. The Firm, subject to applicable law, may transfer or pledge any of its interests in an Advisory Account, in whole or in part, including to any subsidiary or affiliate of, or successor to, the Firm or to any entity controlled by employees of the Firm.

**Board Participation and / or Creditors Committee.** In connection with some of its investments, MBD may, but is not obligated to, seek representation on boards of directors and / or official and unofficial creditors' committees of the Portfolio Companies. While this representation may enable MBD to enhance the value of its investments, it may also prevent an Advisory Account from disposing of its investments in a timely and profitable manner. If representation on a board and / or a creditors committee causes an Advisory Account and / or the Firm to be deemed an affiliate or related party of the Portfolio Company, the securities of the Portfolio Company held by an Advisory Account may become restricted securities, which are not freely tradable. Board representation and / or participation on a creditors committee may also subject an Advisory Account to additional liability to which it would not otherwise be subject as an ordinary course, third party investor. As described in item 5, consultants who serve as MBD representatives on Portfolio Company boards may receive stock of the Portfolio Company as a fee for board service. The consultants who receive such stock generally will be able to determine the timing of the stock's disposition, which creates in certain circumstances a conflict of interest between such consultants, on the one hand, and the Advisory Accounts, on the other hand.

**Operational and Reputational Risk Management.** Portfolio companies can generate various risks for MBD and Advisory Accounts and investors, including operational risk and reputational risk. When evaluating an investment opportunity, the Firm assesses these and other risks associated with the potential investment, and may decide not to pursue an investment opportunity on behalf of any Advisory Account based on its evaluation of such risks. However, no assurance can be given that the Firm will foresee all of the operational and / or reputational risks associated with an investment opportunity which may have an adverse effect on the Firm, MBD and / or such Advisory Accounts.

**Environmental, Health and Safety Risks.** Portfolio companies may be subject to statutes, rules and regulations relating to environmental protection, human health and safety ("EHS"), and may be liable for non-compliance with applicable environmental, health and safety requirements. Although MBD has policies and practices to mitigate any such liability for non-compliance, an Advisory Account may be exposed to risk of loss from such claims arising in respect of such a Portfolio Company.

In particular, investments in commodities-related companies (e.g., companies engaged in the exploration and production of petroleum products and / or natural gas) may increase MBD's and / or Advisory Accounts' exposure to EHS risks. Such companies are subject to comprehensive federal, state and local regulatory regimes and regulators have been increasingly focused on risks associated with commodity investments. Furthermore, the operation of oil, gas, and other natural resource extraction and / or refining facilities is subject to risks inherent in such activities, including but not limited to blowouts, explosions, pollution, leakage, injuries and other EHS risks.

**Force Majeure.** Portfolio companies may be vulnerable to a *force majeure* event, including acts of God, war and strike, which could result in the destruction, impairment or loss of profitability for the Portfolio Companies. In addition, the damage caused by the *force majeure* event may adversely affect a party's ability to perform its obligations until it is able to remedy the damage. Insurance coverage of these risks may be limited, subject to large deductibles or completely unavailable, and MBD will determine in its discretion whether to seek insurance coverage of, or seek alternative ways to manage or mitigate, these risks.

**Terrorism Risk.** Terrorist attacks, in particular, may exacerbate some of the general risk factors related to investing in certain strategies, which could adversely affect the profitability of investments. For example, if a terrorist attack were to occur in the vicinity of a private real estate investment in which an Advisory Account is invested, it could result in a liability far in excess of available insurance coverage. Similarly, prices for certain commodities will be affected by available supply, which will be affected by terrorism in areas in which such commodities are located. MBD cannot predict the likelihood of these types of events occurring in the future nor how such events may affect investments.

**Cybersecurity.** The operations of the Firm, MBD and the Advisory Accounts each rely on the secure processing, storage and transmission of confidential and other information in the Firm's computer systems and networks. The Firm is regularly the target of attempted cyber attacks, including denial-of-service attacks, and must continuously monitor and develop its systems to protect its technology

infrastructure and data from misappropriation or corruption. In addition, due to the Firm's interconnectivity with third-party vendors, central agents, exchanges, clearing houses and other financial institutions, the Firm, and thus indirectly the Advisory Accounts, could be adversely impacted if any of them is subject to a successful cyber attack or other information security event. Although the Firm takes protective measures and endeavors to modify them as circumstances warrant, its computer systems, software and networks may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize the confidential and other information of MBD and the Advisory Accounts, to the extent such information is processed and stored in, and transmitted through, the Firm's computer systems and networks. Such events could also cause interruptions or malfunctions in the operations of MBD and the Advisory Accounts as well as the operations of their beneficial owners, clients and counterparties and the operations of third parties, which could impact their ability to transact with MBD or the Advisory Accounts or otherwise result in significant losses or reputational damage. The increased use of mobile and cloud technologies can heighten these and other operational risks. The Firm is expected to expend additional resources on an ongoing basis to modify its protective measures and to investigate and remediate vulnerabilities or other exposures. Nevertheless, MBD and the Advisory Accounts may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance.

The Firm, MBD and the Advisory Accounts currently or in the future are expected to routinely transmit and receive personal, confidential and proprietary information by email and other electronic means. The Firm has discussed and worked with clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against cyber attacks, but the Firm does not have, and may be unable to put in place, secure capabilities with all of its clients, vendors, service providers, counterparties and other third parties and the Firm may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a client, vendor, service provider, counterparty or other third-party could result in legal liability, regulatory action and reputational harm to MBD or the Advisory Accounts.

#### **Risk Associated with Investing in Private Securities Relating to Infrastructure Assets**

***Governmental Regulation Relating to Infrastructure Assets.*** Certain investments related to infrastructure assets or companies ("Infrastructure Investments") will be subject to governmental regulation, and certain governments may have discretion in implementing regulations that could impact the business of Infrastructure Investments. In addition, the operations of Infrastructure Investments may rely on government permits, licenses, concessions, leases or contracts that are generally complex and may result in a dispute over interpretation or enforceability. Government entities generally have influence over these companies in respect of the various contractual and regulatory relationships they may have. These government entities may exercise their authority in a manner that causes delays in the operation of the business of the Infrastructure Investments or increases administrative expenses. In this regard, the nature and extent of government regulation can also be a key driver of value and returns.

#### **Risk Associated with Investing in Private Securities Related to Real Estate**

***Dependence on Operating Partners.*** Certain Advisory Accounts may rely on the expertise of operating partners who help to identify, evaluate, underwrite, operate, manage and dispose of assets. The selection of an operating partner is inherently based on subjective criteria, making the true performance and abilities of a particular operating partner difficult to assess. This reliance on third parties to manage or operate investments poses significant risks. For example, an operating partner may suffer a business failure, become bankrupt or engage in activities that compete with investments. These and other problems, including the deterioration of the business relationship between an Advisory Account and the operating partner, could have a material or adverse effect on the assets managed by the operating partner.

## **Risks Associated with Investing in Debt**

**Debt Securities Risk.** Certain Advisory Accounts may invest in debt, which is subject to interest rate risk and the risk that the issuer or the guarantor of the security will be unable or unwilling to make timely principal and / or interest payments, or otherwise to honor its obligations. These Advisory Accounts' debt investments may be unsecured and structurally or contractually subordinated to senior indebtedness. Moreover, these debt investments may not be protected by financial covenants or limitations upon additional indebtedness. The foregoing risks could materially adversely affect the investment results of an Advisory Account.

**Mezzanine Debt.** Mezzanine debt is typically subordinated to the obligations of a company to senior creditors, trade creditors and employees. As such, an investment in mezzanine debt is generally riskier than an investment in senior debt. The ability of an Advisory Account that invests in mezzanine debt to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. In addition, the subordinated nature of the mezzanine debt may limit an Advisory Account's rights under and its recovery on the mezzanine loan if the issuer becomes the subject of bankruptcy or insolvency proceedings.

**Collateral Securing Investments.** Debt investments may also be subject to the risk that an Advisory Account's security interests in the underlying collateral are not properly or fully perfected. Compounding these risks, the collateral securing the debt investments may be subject to casualty or devaluation risks. Even where the debt held by an Advisory Account is secured by a perfected lien over a substantial portion of the assets of a Portfolio Company and its subsidiaries, the Portfolio Company and its subsidiaries will often be able to incur other indebtedness, which may have an exclusive or priority lien over particular assets. As a result of the liens granted to the holders of this other indebtedness, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a Portfolio Company, holders of these other secured debt instruments may have priority that ranks senior to an Advisory Account's investment in that Portfolio Company with respect to these assets. Furthermore, these other assets over which other lenders have a lien may be substantially more liquid or valuable than the assets over which an Advisory Account may have a lien. The Portfolio Companies may also be permitted to issue additional indebtedness that ranks in parity in right of payment or as to the proceeds of collateral with debt securities in which an Advisory Account invests, in which event, the Advisory Account would have to share on an equal basis any distributions with other creditors holding this debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant Portfolio Company. In addition, where an Advisory Account holds a first lien to secure indebtedness owed to the Advisory Account, the Portfolio Companies may be permitted to issue other debt with liens that rank junior to the first liens granted to the Advisory Account. The intercreditor rights of the holders of the other junior lien debt may, in any insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant Portfolio Company, affect the recovery that the Advisory Account would have been able to achieve in the absence of the other debt.

**Potential Early Redemption of Some Investments.** Debt investments will typically permit the borrowers to voluntarily prepay loans at any time, either with no or a small prepayment penalty. Borrowers may prepay their loans in a variety of circumstances, including when there is a decline in interest rates, or when the Portfolio Company's improved credit or operating or financial performance allows the refinancing of certain classes of debt with lower cost debt. Assuming an improvement in the credit market conditions, early repayments of the debt held by an Advisory Account could increase. To the extent early prepayments increase, they may have a material or adverse effect on an Advisory Account's returns.

**Lack of Control Over Portfolio Companies.** An Advisory Account that focuses on debt investments generally will not be in a position to control any Portfolio Company. As a result, such an Advisory Account is subject to the risk that a Portfolio Company may make business decisions with which it disagrees and the management of the Portfolio Company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve the interests of the Advisory Account.

**Governmental Regulation Relating to Leveraged Lending.** The Federal Reserve Board and certain other U.S. regulatory agencies have been scrutinizing leveraged lending practices closely. On March 21,

2013 these agencies released updated supervisory guidance outlining principles related to leveraged lending activities for U.S. financial institutions that requires U.S. financial institutions to implement certain risk management processes focused on their lending practices. The guidance articulated regulator expectations for safe and sound lending of leveraged loans, and addressed underwriting, participations purchased, enterprise valuations, stress testing and risk management and reporting. Since 2013, through various public announcements, the agencies have reiterated their focus on compliance with the guidelines. U.S. financial institutions that fail to do so may be subject to supervisory actions, which could have a significant impact on their ability to operate consistent with their intended business plans. Accordingly, MBD may suffer adverse consequences if the Firm becomes subject to any such supervisory action.

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**Item 9 - DISCIPLINARY INFORMATION**

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Although the following matters relate to GS&Co., they do not involve MBD.

The SEC brought a civil action in the U.S. District Court for the Southern District of New York against GS&Co. and one of its employees in connection with a single collateralized debt obligation transaction made in early 2007. On July 14, 2010, the SEC and GS&Co. entered into a consent agreement settling this action against GS&Co. On July 20, 2010, the United States District Court entered a final judgment approving the settlement. GS&Co. has made applications with the Financial Industry Regulatory Authority for the continuation of certain self-regulatory organization memberships from which it would otherwise be disqualified as a result of the final judgment.

On August 21, 2008, GS&Co. entered into a settlement in principle with state regulators regarding auction rate securities ("ARS"). Under the settlement, GS&Co. agreed to offer to repurchase at par approximately \$1 billion of ARS that were still held by its eligible Private Wealth Management clients and that were purchased through the Firm prior to February 11, 2008. GS&Co. also paid a penalty of \$22.5 million and made certain related undertakings. Subsequently, GS&Co. entered into several consent orders with different states to accomplish this settlement in principle.

Additional information about the matters described above is contained in GS&Co.'s Form BD, and additional information about GS&Co.'s advisory affiliates is contained in Part 1 of GS&Co.'s Form ADV.

For information relating to other Goldman Sachs entities, please visit [www.gs.com](http://www.gs.com) and refer to the public filings of The Goldman Sachs Group, Inc, including its most recently filed Form 10-K.

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**Item 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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**Broker-Dealer Registration**

GS&Co. is a registered broker-dealer. Many of MBD's management persons are registered representatives of GS&Co. as necessary or appropriate to perform their responsibilities.

**Commodity Pool Operator, Commodity Trading Adviser, Futures Commission Merchant Registration**

GS&Co. is registered with the Commodity Futures Trading Commission ("CFTC") as a futures commission merchant, a commodity pool operator, a commodity trading advisor, a swap firm and a swap dealer. If permitted by law and applicable regulations, MBD may buy or sell futures, swaps or other similar products for the Advisory Accounts through its CFTC-registered affiliates and these affiliates may receive commissions.

**Other Material Relationships with Affiliated Entities**

MBD has relationships with, and may utilize services of, affiliated entities and business units of the Firm in connection with its activities. Fees paid to such affiliated service providers, while believed to be

customary compensation for relevant activities, may not be negotiated and, from time to time, may be more or less than what a comparable third party might charge. The particular services involved depend on the types of services offered by the affiliate or business unit. Particular relationships may include, but are not limited to, those discussed below.

#### Broker-Dealer, Municipal Securities Dealer, Government Securities Dealer or Broker

To the extent permitted by applicable law, MBD may use the securities, custody or other services offered by GS&Co., Goldman Sachs International and other affiliates. The Advisory Accounts will pay for broker-dealer or other services performed by MBD's affiliates. When the Firm acts as a broker-dealer or underwriter for an Advisory Account or its Portfolio Companies, it is anticipated that the commissions and fees, terms and conditions charged by the Firm will be what it believes to be customary compensation for comparable services provided by nonaffiliated companies; however, this compensation may not be negotiated and, from time to time, may be more or less than what a comparable third party might charge.

#### Other Investment Advisers

GSRM may serve as a sub-adviser to private investment funds formed and operated by GS&Co. and GS&Co. affiliates, including MBD. GSRM also provides advisory services to other affiliates of the Firm. GSRM generally provides services in the sourcing, acquisition, asset management, underwriting, due diligence, financing and disposition of real estate investments. See also Item 5.

#### Advisory Affiliates

MBD not only provides investment advisory services to the Advisory Accounts through GS&Co. but also through certain of the employees of the following participating affiliates: Goldman Sachs (Asia) L.L.C., Goldman Sachs (India) Securities Private Limited, Goldman Sachs Broad Street (Beijing) Equity Investment Management Co., Ltd., Goldman Sachs Japan Co., Ltd., Goldman Sachs Global Services II Limited, Goldman Sachs International, GS Do Brasil Banco Multiplo SA and Goldman Sachs Services Limited. These affiliates are not registered with the SEC as investment advisers but are foreign affiliated advisers that may provide advice or research to MBD for the benefit of Advisory Accounts (in such capacity, "Participating Affiliates"). The Participating Affiliates will act according to a series of SEC no-action relief letters mandating that Participating Affiliates remain subject to the regulatory supervision of both MBD and the SEC.

GS&Co. may, in its discretion, delegate all or a portion of its advisory or other functions (including placing trades on behalf of the Advisory Accounts) to any affiliate that is registered with the SEC as an investment adviser or to any Participating Affiliate. To the extent GS&Co. delegates its advisory or other functions to affiliates that are registered with the SEC as investment advisers, a copy of the brochure of each such affiliate is available on the SEC's website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)) and will be provided to the Advisory Accounts upon request.

In 2014, MBD formed Goldman Sachs MB Services Limited, an authorized and regulated alternative investment fund manager regulated by the UK Financial Conduct Authority (the "FCA"), for the purpose of managing European based alternative investment funds marketed to European based investors. GS&Co. will be the sub-investment manager of funds managed by Goldman Sachs MB Services Limited.

GS Lux Management Services S.à r.l., an entity formed by MBD, provides corporate secretarial services and maintains the statutory financial accounts of certain MBD Funds and Luxembourg-based investment holding entities in which the Firm and / or Advisory Accounts may have direct or indirect ownership interests.

#### Management Persons; Policies and Procedures

Certain of MBD's management persons may also hold positions with the affiliates listed above. In these positions, those MBD management persons may have some responsibility with respect to the business of

these affiliates. Consequently, in carrying out their roles at MBD and these other entities, the management persons of MBD may be subject to potential conflicts of interest.

MBD has established a variety of restrictions, procedures, and disclosures designed to address potential conflicts of interest that may arise between MBD and other parts of the Firm. The policies and procedures include: information barriers designed to prevent the flow of information between MBD, MBD employees and certain other affiliates; policies relating to brokerage selection; investment allocation policies applicable to the Advisory Accounts and policies relating to the conflicts of interest described above. However, no assurance can be made that these policies and procedures will have their desired effect. Additional information about these conflicts and the policies and procedures to address them is available in Item 11.

## **Item 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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### **Code of Ethics and Personal Trading**

MBD has adopted a Code of Ethics (the “MBD Code”) to guide MBD employees and selected others in complying with applicable federal securities laws and in complying with the fiduciary duties to which MBD is subject. In addition, the MBD Code requires MBD employees to comply with Firm policies on personal trading, private investments and outside business activities and to act in good faith and place the interests of its clients first in conducting personal securities transactions. MBD will provide a copy of the MBD Code to its clients and prospective clients upon request.

### **Participation or Interest in Client Transactions**

The Firm is a worldwide, full-service investment banking, broker-dealer, asset management and financial services organization and a major participant in global financial markets. It provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high net worth individuals. As such, it acts as an investment banker, research provider, investment manager, financier, advisor, market maker, prime-broker, derivatives dealer, lender, counterparty, agent and principal. In those and other capacities, the Firm advises clients in all markets and transactions and purchases, sells, holds and recommends a broad array of investments including securities, derivatives, loans, commodities, currencies, credit default swaps, indices, baskets and other financial instruments and products for its own accounts and for the accounts of clients and has other direct and indirect interests in the global fixed income, currency, commodity, equity, bank loan and other markets in which the Advisory Accounts directly and indirectly invest. As a result, the Firm’s activities may affect the Advisory Accounts in ways that may disadvantage or restrict the Advisory Accounts and / or benefit the Firm. In managing conflicts of interest that may arise as a result of the foregoing, MBD generally will be subject to fiduciary requirements. The following are descriptions of the key conflicts associated with the financial or other interests that MBD and the Firm may have in transactions effected by, with and on behalf of the Advisory Accounts. The conflicts described herein do not purport to be a complete list or explanation of the conflicts associated with the financial or other interests that MBD and the Firm may have now or in the future. Prior to making an investment in an Advisory Account, prospective investors are encouraged to read the Offering Materials for the applicable Advisory Account.

### **Client Relationships**

The Firm has longstanding relationships with, and regularly provides financing, investment banking and other services to, a significant number of corporations and private equity sponsors, leveraged buyout and hedge fund purchasers, potential Portfolio Companies and their respective senior managers, shareholders and partners and participants in and lenders to the real estate and related financial markets. Some of these corporations, private equity sponsors and other purchasers may directly compete with the Advisory Accounts for investment opportunities. The Firm considers these relationships in its management of the Advisory Accounts. In this regard, there may be certain investment opportunities or certain investment



strategies that the Firm (i) does not undertake on behalf of the Advisory Accounts in view of these relationships, or (ii) refers to clients instead of retaining for the Advisory Accounts.

### **Seller Activities**

The Firm is frequently engaged as a financial advisor, or to provide financing, to corporations and other entities and their management teams in connection with the sale of those companies or some or all of their assets, and the Firm's compensation in connection with these engagements may be substantial. The Firm's compensation for those engagements is usually based upon sales proceeds and is contingent, in substantial part, upon a sale. As a result, because sellers generally require the Firm to act exclusively on their behalf, the Advisory Accounts will be precluded in many instances from attempting to acquire securities of, or providing financing to, the business being sold or otherwise participate as a buyer in the transaction. The Firm's decision to take on seller engagements is based upon a number of factors, including the likelihood in any particular situation that the successful buyer will be a financial purchaser rather than a strategic purchaser, the likelihood that any of the Advisory Accounts will be involved in the financing of that transaction and the compensation the Firm might receive by representing the seller. On occasion, the Firm may be given a choice by a seller of acting as its agent, as a potential purchaser of securities or assets, or as a buyer's source of financing through the Advisory Accounts. The Firm reserves the right to act as the seller's agent in those circumstances, even where this choice may preclude the Advisory Accounts from acquiring the relevant securities or assets.

### **Buyer Activities**

The Firm also represents potential buyers of businesses, including private equity sponsors, and the Firm's compensation in connection with these representations may be substantial. In these cases, the Firm's compensation is usually a flat fee that is contingent, in substantial part, upon a purchase. Accordingly, the Firm may have an incentive to direct an acquisition opportunity to one of these parties rather than to the Advisory Accounts or to form a consortium with one or more of these parties to bid for the acquisition opportunity, thereby eliminating or reducing the investment opportunity available to the Advisory Accounts. When the Firm represents a buyer seeking to acquire a particular business, or provides financing to a buyer in connection with an acquisition, the Advisory Accounts may be precluded from participating in the financing of the acquisition of that business. The Firms' buyer and financing assignments may include representation of clients who would not permit either the Firm or affiliates thereof, potentially including the Advisory Accounts, to invest in the acquired company. In this case, none of the Firm or its affiliates, including the Advisory Accounts, would be allowed to participate as an investor. In some cases, a buyer represented by the Firm may invite MBD and certain Advisory Accounts to participate in the investment. Alternatively, MBD and certain Advisory Accounts may be invited to provide financing for this type of purchase. Each of these situations is likely to present difficult competing considerations involving conflicts of interest. In addition, the Firm may accept buyer advisory assignments in respect of a company in which the Advisory Accounts have an investment. The Advisory Accounts may be precluded from selling their investment during the assignment. The Firm evaluates potential buyer assignments in light of factors similar to those that will be considered in engaging in seller assignments.

### **Advisory and Underwriting Fees; Other Activities**

The Advisory Accounts may make investments in Portfolio Companies to which the Firm is providing or competing to provide financial services, including as a broker, asset manager, lender, financial advisor, merger advisor, placement agent, underwriter, selling agent or arranger of hedging transactions. Services for advisory fees may range from general corporate financial advice to restructuring advice to merger and acquisition representation. The Firm's compensation in connection with providing these services may be substantial. Except as provided in the Offering Materials of certain Advisory Accounts, the Advisory Accounts do not receive any portion of the foregoing fees, or other fees received by the Firm for its services, whether or not the investment by MBD and certain Advisory Accounts was a factor in selecting the Firm to provide services. In addition, as affiliates of the Firm, which is a regulated entity, the Advisory Accounts' activities may be subject to certain limitations that may not be applicable to an investor unaffiliated with a regulated entity. For instance, in connection with an equity offering of

securities of a Portfolio Company for which the Firm is acting as an underwriter, the Advisory Accounts may, in certain instances, be subject to regulatory restrictions (in addition to contractual restrictions) on their ability to sell equity securities of the Portfolio Company for a period after completion of the offering.

### **Principal, Agency Cross and Other Securities Transactions**

To the extent permitted by applicable law and MBD policy, MBD, acting on behalf of the Advisory Accounts, may enter into transactions in securities and other instruments with or through the Firm and may cause the Advisory Accounts to engage in cross and / or agency cross transactions. There may be potential conflicts of interest or regulatory issues relating to these transactions which could limit MBD's decision to engage in or recommend these transactions for the Advisory Accounts. See Item 8 “–*Investment Advisory Committees*” above.

Principal transactions occur if an Advisory Account engages in a transaction in securities or other instruments with the Firm, acting as principal. The Firm may earn compensation (such as spread or markup) in connection with these transactions. Cross transactions occur if an Advisory Account buys securities or other instruments from, or sell securities or other instruments to, another Advisory Account. An agency cross transaction occurs when the Firm acts as broker for, and receives a commission from, both the Advisory Account on one side of the transaction and the person on the other side of the transaction in connection with the purchase or sale of securities. The Firm may have a potentially conflicting division of loyalties and responsibilities to the parties to such transactions, and has developed policies and procedures in relation to such transactions and conflicts. Any principal, cross or agency cross transactions will be effected in accordance with fiduciary requirements and applicable law (which may include disclosure and consent). See Item 8 “–*Advisory Account Consent Requirements*.”

### **Investment Advisory Clients**

The Firm acts as advisor to clients, including other investment partnerships, in asset management, investment management and other capacities with respect to investments in securities of a company in which the Advisory Accounts may have an investment. The Firm's asset management and investment management activities will generally be carried out without reference to Portfolio Companies or positions held by the Advisory Accounts or Portfolio Companies or entities in which the Advisory Accounts have invested. The Firm may give advice and take action with respect to any of its clients or investment accounts that may differ from the advice given, or may involve a different timing or nature of action taken, than with respect to the Advisory Accounts. Because of different objectives or other factors, a particular investment may be bought or sold by the Advisory Accounts, the Firm or its other investment funds or vehicles, clients, or the employees of the Firm at a time when one of these persons or entities is selling or purchasing the investment.

### **Lending and Loan Syndication; Investments in Different Parts of an Issuer's Capital Structure**

The Firm is engaged in the business of making, underwriting and syndicating senior and other loans to corporate and other borrowers, and seeks to provide these services to Portfolio Companies. For instance, Portfolio Companies may borrow money from the Firm and / or the Firm may arrange or underwrite bank or high-yield financing used by Portfolio Companies. In certain circumstances, the Firm may be the sole provider of financing to a Portfolio Company. In addition, the Firm is the sponsor of (and some of the Advisory Accounts are) investment partnerships specializing in senior secured loan investments and mezzanine investments, which may make senior secured loan and / or mezzanine investments in Portfolio Companies alongside the Advisory Accounts or otherwise.

The Firm and / or Advisory Accounts, on the one hand, and a particular Advisory Account, on the other hand, may invest in different parts of the capital structure of a single issuer. As a result, the Firm and / or Advisory Accounts may take actions that adversely affect another Advisory Account. In addition, the Firm (including MBD) may advise Advisory Accounts with respect to different parts of the capital structure of the same issuer, or classes of securities that are subordinate or senior to securities, in which a particular Advisory Account invests. The Firm may pursue rights, provide advice or engage in other activities, or refrain from pursuing rights, providing advice or engaging in other activities, on behalf of itself or some

Advisory Accounts and such actions (or restraining of action) may have a material or adverse effect on one or more other Advisory Accounts. For example, in the event that the Firm or an Advisory Account holds loans, securities or other positions in the capital structure of an issuer that ranks senior in preference to the holdings of a particular Advisory Account in the same issuer, and the issuer were to experience financial or operational difficulties, the Firm (acting on behalf of itself or the Advisory Account) may seek a liquidation, reorganization or restructuring of the issuer, or terms in connection with the foregoing, that may have an adverse effect on or otherwise conflict with the interests of the particular Advisory Account's holdings in the issuer. Alternatively, in situations in which an Advisory Account holds a more senior position in the capital structure of an issuer experiencing financial or other difficulties as compared to positions held by other Advisory Accounts (which may include those of the Firm), MBD may determine not to pursue actions and remedies that may be available to the Advisory Account or particular terms that might be unfavorable to the Advisory Accounts holding the less senior position. In addition, in the event that the Firm or the Advisory Accounts hold voting securities of an issuer in which a particular Advisory Account holds loans, bonds or other credit-related assets or securities, the Firm or the Advisory Accounts may vote on certain matters in a manner that has an adverse effect on the positions held by the Advisory Account. Conversely, Advisory Accounts may hold voting securities of an issuer in which the Firm or Advisory Accounts hold credit-related assets or securities, and MBD may determine on behalf of the Advisory Accounts not to vote in a manner adverse to the Firm or the Advisory Accounts.

These potential issues are examples of conflicts that the Firm will face in situations in which Advisory Accounts, and the Firm or other Advisory Accounts, invest in or extend credit to different parts of the capital structure of a single issuer. The Firm has adopted procedures to address such conflicts; however, no assurance can be made that these procedures will have their desired effect. The particular procedures employed will depend on the circumstances of particular situations. For example, the Firm may determine to rely on information barriers between different Firm business units or team separation procedures. MBD may have the right, in its sole discretion, to utilize, on a case-by-case basis, the Investment Advisory Committee of an Advisory Account or other persons to provide advice or consent with respect to one or more transactions or actions. See Item 8 “*Advisory Account Consent Requirements.*” The Firm may determine to rely on the actions of similarly situated holders of loans or securities rather than taking such actions itself on behalf of the Advisory Account.

As a result of the various conflicts and related issues described above and the fact that conflicts will not necessarily be resolved in favor of the interests of particular Advisory Accounts, Advisory Accounts could sustain losses during periods in which the Firm and other Advisory Accounts achieve profits generally or with respect to particular holdings in the same issuer, or could achieve lower profits or higher losses than would have been the case had the conflicts described above not existed. The negative effects described above may be more pronounced in connection with transactions in, or Advisory Accounts utilizing, small capitalization, emerging market, distressed or less liquid strategies.

In connection with a restructuring of a financially distressed company, the equity interests in the company may be extinguished or substantially diluted while the creditors may receive a recovery of some or all of the amounts due to them and may receive equity in the company. In this regard, as a debt holder in a company subject to a restructuring, the Firm and / or Advisory Accounts may recover amounts owed to them while other Advisory Accounts' equity interests may be extinguished or substantially diluted. In addition, in connection with lending arrangements involving a Portfolio Company, the Firm may seek to exercise its creditors' rights under the applicable loan agreement or other document, which may be detrimental to equity holders, including other Advisory Accounts.

### **Diverse Interests**

An Advisory Account and its respective investors, including the Firm, may have conflicting investment, tax and other interests with respect to the investments made by the Advisory Account. Conflicts of interest may arise in connection with decisions made by the Advisory Account, including with respect to the nature or structuring of investments. In selecting and structuring investments, MBD will generally consider investment objectives of the Advisory Account as a whole but will not consider the impact of an investment on any individual investor in an Advisory Account. As a result, certain investments may be more beneficial for one type of investor than for another type of investor.

## **Representing Creditors and Debtors**

The Firm may represent creditor or debtor companies in proceedings under Chapter 11 of the U.S. Bankruptcy Code (and equivalent non-U.S. bankruptcy laws) or prior to these filings. From time to time, the Firm may serve on creditor or equity committees. These actions, for which the Firm may be compensated, may limit or preclude the flexibility that the Advisory Account may otherwise have to buy or sell securities issued by those companies, as well as certain real estate or other assets. See “*Lending and Loan Syndication; Investments Where the Firm’s Affiliates Provide or Arrange Financing to the Same Portfolio Company*” above.

## **Material, Non-Public Information; Trading Restrictions; Information Not Made Available**

From time to time, the ability of the Advisory Accounts to buy or sell certain securities may be restricted by applicable securities laws or regulatory requirements applicable to the Firm (and / or its internal policies designed to comply with these and similar requirements). As a global financial services company, the Firm may possess material, non-public information about a Portfolio Company or other potential investment that would limit the ability the Advisory Accounts to buy and sell securities related to that Portfolio Company or other potential investment. This may adversely affect the Advisory Account’s ability to make certain investments and / or to sell certain investments.

In addition, the Firm and its representatives may have access to certain information and / or may develop fundamental analyses, proprietary technical models or other investment strategies, opportunities or ideas, for use in connection with other clients or activities, which are not available to the Firm’s personnel advising or otherwise providing services to the Advisory Accounts or to potential Portfolio Companies. The Firm is under no obligation to and may not disseminate, and in some cases (such as research) may be prohibited from disseminating, information between areas within the Firm, including to MBD.

## **Other Activities of Managers**

MBD and other Firm personnel who play key roles in managing the Advisory Accounts may spend a portion of their time on matters other than or only tangentially related to any particular Advisory Account. Time may be spent on other Firm investment activities, including without limitation, investments made on behalf of the Firm. As a result, the other obligations of these individuals could conflict with their responsibilities to any of the Advisory Accounts.

## **Valuation Matters**

Certain securities and other assets in which an Advisory Account may directly or indirectly invest may not have a readily observable market value and will be valued by GS&Co. in accordance with its valuation principles. These securities and other assets may constitute a substantial portion of the Advisory Account’s investments.

Various divisions and units within the Firm are required to value assets, including in connection with managing or advising client or the Firm’s accounts and in their capacity as a prime broker. However, MBD values investments made by the Advisory Accounts according to MBD’s valuation policies, and there may be situations where assets are valued differently by another division or unit of the Firm, particularly when an asset does not have a readily observable market price. In addition, the valuation of investments is reviewed by an independent control function of the Firm.

The valuation of investments may affect the amount and timing of Override the Firm receives from an Advisory Account. Generally, the Firm will not receive any Override from an Advisory Account unless the investors would achieve a preferred return taking into account the amount of distributions that have been made and amounts that would be distributed if all investments were disposed of for their fair values. This may create an incentive for the Firm and MBD to avoid writing down the value of assets that are not readily marketable or difficult to value because the Firm will be in a position to receive Override earlier. Furthermore, the valuation of investments may affect the ability of MBD to raise successor Advisory

Accounts, creating an incentive to determine valuations that are higher than the actual fair value of the investments.

### **Allocation of Investment Opportunities; Other Investment Activities of the Firm**

Certain investment opportunities generated by the Firm or which otherwise become available may be appropriate for one or more Advisory Accounts as well as other areas of the Firm, or may be appropriate for co-investment by an Advisory Account. The applicable Investment Committee may determine, in its good faith business judgment, not to pursue all or a portion of an investment opportunity, including opportunities that would be appropriate portfolio investments and not all investment opportunities will be presented to all Advisory Accounts. Allocations of investment opportunities present conflicts of interest, and investment opportunities that are suitable for an Advisory Account may nonetheless be pursued and consummated by other areas of the Firm and / or other Advisory Accounts. The methodology for the allocation of investment opportunities between the Firm and the Advisory Accounts, and among Advisory Accounts, may vary over time and on a case-by-case basis, and is determined by the Firm and the applicable Investment Committee (or a subgroup thereof). Additional information about how allocations of investment opportunities are made to an Advisory Account is in the Offering Materials for that Advisory Account.

In allocating investment opportunities among the Advisory Accounts, MBD takes into account various factors, including various investment objectives, any relevant contractual provisions, written allocation guidelines established by MBD, targeted returns, diversification requirements or considerations, suitability requirements, the risk profile of the investment, preferences expressed by investors in the Advisory Accounts, available capital commitments, the Advisory Accounts' ability to execute on the transaction, the size of the investment opportunity, investment restrictions, the expected duration of any particular Advisory Account's or business area's investment program, the anticipated magnitude of the overall investment program for the then current year and any changes in the rate at which the program is carried out, the composition of the various portfolios individually and as a whole, legal, tax or regulatory issues, whether the investment represents an "add-on" investment and whether an opportunity exists to invest in different layers in the capital structure of a company. In certain circumstances, investment opportunities may be allocated on a pro-rata basis among eligible Advisory Accounts. In addition, in certain instances, the applicable Investment Committee may determine it is beneficial for the Firm and the Advisory Accounts to co-invest because of, among other things, the size of the investment and / or the Firm's expertise in the industry. In this regard, opportunities in which the Firm, or another investment partnership sponsored by the Firm, is making an investment contemporaneously with an Advisory Account will not be offered exclusively to the Advisory Account.

MBD Employee Funds may invest side-by-side with Advisory Accounts which may result in the Advisory Accounts being allocated a smaller share of that investment than would be the case absent the side-by-side investment. In addition, the participation of MBD employees in certain MBD Employee Funds may create an incentive to influence the allocation of an attractive investment opportunity to the MBD Employee Fund; however, MBD has guidelines designed to address this potential conflict. See *"Investors in Any MBD Employee Fund may be Subject to Different Terms and these Terms may be More Favorable" below*.

From time to time, the Advisory Accounts may make, or consider making, an investment in a company in which the Firm or another Advisory Account already owns an interest. In addition, MBD may, in its discretion, offer to the Firm's affiliates and / or third parties (which may include investors in the Advisory Accounts) the opportunity to invest or co-invest in Portfolio Companies on a side-by-side basis or otherwise. An opportunity to co-invest in a Portfolio Company may involve a benefit to the Firm including, without limitation, reallocation of capital, management fees and / or Override from the co-investment opportunity.

If an investment represents an "add-on" investment opportunity for the Firm or one of these Advisory Accounts, there can be conflicts of interest, including the determination of the economic terms of the new investment. Add-on investment opportunities may be available to Advisory Accounts with no existing investment in the applicable Portfolio Company, creating an incentive to use the assets of one Advisory

Account to support investments of the Firm or other Advisory Accounts. In addition, conflicts of interest in recapitalization transactions arise between Advisory Accounts with existing investments in a company and Advisory Accounts making an initial investment in the company, which have opposing interests regarding pricing and other terms. For a description of the types of procedures the Firm and Advisory Accounts may employ to address these conflicts of interest, see Item 8 “*Investment Advisory Committees*.”

In the course of investing in a Portfolio Company, MBD may cause one or more of its Advisory Accounts to make (or commit to make), an investment in such Portfolio Company with the intent to sell a portion of such investment to co-investors prior to or within a period after the closing of the acquisition. In this situation, Advisory Accounts will bear the risk that MBD may not be successful in selling such a co-investment opportunity to potential co-investors, and that, as a result, the applicable Advisory Accounts will bear the entire portion of any broken-deal expenses and other costs and expenses related to such investment, hold a greater concentration and have greater exposure in such Portfolio Company than was intended. Moreover, an investment by one or more of its Advisory Accounts which is not sold to co-investors as originally anticipated could reduce the Advisory Accounts’ overall investment returns due to concentration. MBD attempts to address such risks by requiring such investments to be in the best interests of its Advisory Accounts, regardless of whether any sell-down ultimately occurs, and MBD will not be deemed to be in breach of any duty or to have violated any other obligation to the Advisory Accounts or any of their respective investors by engaging in such investment and sell-down activities.

The Firm conducts principal activities through various areas within the Firm, and the Firm may have a greater financial interest in these areas and / or in various other investment funds, separately managed accounts and other investment vehicles it sponsors and manages than it does in an Advisory Account. Decisions by MBD with respect to the Advisory Accounts’ investment in a Portfolio Company and decisions by the Firm with respect to its investment (or the investment of other Advisory Accounts and / or other Firm clients) in the same Portfolio Company, including the timing of any sales, may be made independently and the Firm may make decisions without regard to the best interests of an Advisory Account. For example, the Firm and / or certain Advisory Accounts may invest or dispose of an investment in a particular company prior to or after the time that another Advisory Account invests in or disposes of its investment in the same company, potentially resulting in different rates of return and profit and loss on the investment and, possibly, adverse consequences for the Advisory Account. In other cases, the Advisory Accounts’ and the Firm’s sales programs and other activities with respect to a Portfolio Company may be coordinated. In addition, an Advisory Account may invest in an investment that the Firm has declined to pursue and the Firm may invest in an investment that an Advisory Account has declined to pursue. Alternatively, there may be investment opportunities or strategies that an Advisory Account will not pursue in light of their potential impact on other areas of the Firm or on Portfolio Companies or be unable to pursue as a result of non-competition agreements or other similar undertakings made by the Firm. At times, the Advisory Accounts and the Firm may be viewed as competing for appropriate investment opportunities. Finally, an Advisory Account may invest or co-invest in companies or other entities in which another Advisory Account has or is making a principal investment at the time of the Advisory Account’s investment. MBD has guidelines designed to address these potential conflicts.

**Investors in Any MBD Employee Fund may be Subject to Different Terms and these Terms may be More Favorable**

The terms of an investment in an MBD Employee Fund are typically different from, and may be more favorable than, those of an investment by an external investor in an Advisory Account. For example, investors in an MBD Employee Fund generally are not subject to management fees or Override, may share in the Override as a holder of override interests, and may receive capital calls, distributions and information regarding investments at different times than external investors. In addition, to the extent permitted by law, certain investors in an MBD Employee Fund may be provided “leverage” by the Firm. In the event of a substantial decline in the value of an MBD Employee Fund’s investments, the leverage, if any, provided to employees may have the effect of rendering the investments by employees effectively worthless, which could undermine potential alignments of interest between employees and external investors. In certain circumstances, subject to applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Firm may offer to purchase, redeem or liquidate the interests

held by one or more investors in an MBD Employee Fund (potentially on terms advantageous to the MBD Employee Fund investors) or to release one or more investors in an MBD Employee Fund from their obligations to fund capital commitments without offering external investors the same or a similar opportunity.

### **Side Letters or Similar Agreements**

MBD may, subject to applicable law and Firm policies, enter into confidential side letters or similar agreements or other arrangements with investors, without the approval or vote of any other investor, that amend, modify or supplement the economic, legal or other terms of, the Offering Materials with respect to those investors. MBD will consider many factors in deciding whether to grant investors in an Advisory Account customized terms via a confidential side letter or similar agreement or other arrangement, and it expects to grant preferential treatment to the following types of investors: (a) investors that have made or have proposed to make relatively large commitments to the Advisory Account, and (b) investors that are subject to specific legal, tax or regulatory status or other requirements or policies applicable to them. These agreements may involve, among other matters: (i) different economic arrangements based upon the size or timing of capital commitments; (ii) certain investors receiving information and reporting in addition to or more expeditiously than information and reporting received by investors generally; (iii) agreements to permit representatives of certain investors to serve on an Investment Advisory Committee; (iv) the right to transfer interests in the applicable Advisory Account (e.g., generally to an affiliate of the investor, subject to certain conditions); (v) provisions necessary to comply with applicable tax, regulatory or internal policy requirements; (vi) excuse or exclusion rights applicable to particular investments or withdrawal rights from the investment vehicle (which may increase the percentage interest of other investors in, and contribution obligations of other investors with respect to, future investments, and reduce the overall size of the Advisory Account); (vii) the offering of co-investment opportunities; (viii) waiver of certain confidentiality obligations and the right to disclose certain information to underlying investors, to the public or to regulators, and (ix) modifications to the investor's subscription agreement.

### **Personal Investing**

MBD personnel are subject to the Firm's policies and procedures regarding personal investing. MBD requires pre-clearance of all personal securities transactions, both public and private, by MBD personnel and MBD can deny any such transaction in its discretion. In order to address potential conflicts of interest with the Advisory Accounts and other legal and regulatory restrictions (such as when MBD has confidential information about a Portfolio Company), the Firm maintains a list of securities in which MBD personnel cannot trade. Additionally, as of September 2014, MBD generally does not allow its personnel to purchase securities of single-name public issuers.

### **Transactions with Investors**

MBD or the Firm from time to time may engage in transactions with prospective and actual investors that entail business benefits to such investors. Such transactions may be entered into prior to or coincident with an investor's admission to an Advisory Account or during the term of their investment. The nature of such transactions can be diverse and may include benefits relating to one or more Advisory Accounts and their respective Portfolio Companies.

### **Interpretation of Governing Documents**

The Offering Materials of each Advisory Account and related documents are detailed agreements that establish complex arrangements among MBD, the investors, the Advisory Account, the general partner and other entities and individuals. Questions will arise from time to time under these agreements regarding the parties' rights and obligations in certain situations, some of which will not have been contemplated at the time of the agreements' drafting and execution. In these instances, the operative provisions of the agreements, if any, may be broad, general, ambiguous or conflicting, and permit more than one reasonable interpretation. At times there will not be a provision directly applicable to the situation. While the relevant agreements will be construed in good faith and in a manner consistent with

applicable legal obligations, the interpretations adopted will not necessarily be, and need not be, the interpretations that are the most favorable to the Advisory Accounts or their investors.

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**Item 12 - BROKERAGE PRACTICES**

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**Broker-Dealer Selection and Aggregation of Trades**

Under the Investment Advisers Act of 1940 (the “Advisers Act”), GS&Co., through MBD, has a fiduciary duty to receive best execution from broker-dealers executing trades on behalf of the Advisory Accounts. One key factor in determining best execution is price, which also includes implicit and explicit costs (such as commissions, commission equivalents and markup / markdown). Other key factors include a broker-dealer’s execution capability, track record, financial stability, creditworthiness and clearance and settlement capability, as well as overall responsiveness and quality of service and confidentiality. When selecting or recommending broker-dealers, MBD does not consider whether MBD or any of its affiliates receives client referrals from that broker-dealer.

MBD executes orders for purchases or sales of publicly traded securities on behalf of multiple Advisory Accounts. Any trades made on behalf of multiple Advisory Accounts are aggregated and placed with one or more broker-dealers for execution. Partially executed orders are allocated pro-rata in accordance with the number of securities sought to be purchased or sold by each Advisory Account. MBD does not net buy and sell orders for the same Advisory Account if netting is not appropriate or practicable from MBD’s operational or other perspective.

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**Item 13 - REVIEW OF ACCOUNTS**

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**General Description**

At least quarterly, MBD reviews the valuation of investments in the Advisory Accounts, and throughout the year monitors transactions that may affect valuations. Items which may impact the valuation of each investment include, but are not limited to: operating performance, financial strength and stability, market or industry dynamics, potential exit strategies, third-party independent appraisals, public comparables and broker or dealer quotations (if the investment is quoted on a public trading market).

**Client Reports**

MBD generally provides investors in an MBD Fund annual audited financial statements, and may provide other periodic reports. MBD generally provides Advisory Account clients with written reports on at least an annual basis, as set forth in the Advisory Account’s advisory agreement. These reports may include, among other things, a summary of activity in the Advisory Account, including transactions made on behalf of the Advisory Account, contributions and withdrawals made by the Advisory Account, a summary of holdings including a portfolio valuation, and the change in value of the Advisory Account during the reporting period.

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**Item 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

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**Compensation for Client Referrals**

MBD compensates other business units of the Firm for referring potential investors in the Advisory Accounts. These arrangements involve pre-negotiated fees based either on (i) a percentage of the commitments or (ii) amount invested by an investor referred by the other business unit or division.

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**Item 15 – CUSTODY**

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GS&Co. is generally deemed to have custody of the investments made by the MBD Funds. In accordance with the Advisers Act, GS&Co. generally sends audited financial statements to investors in the MBD Funds within 120 calendar days of the end of the calendar year. In addition, GS&Co. may either act as custodian



to a Co-Investment Mandate or may be deemed to have custody of the assets of a Co-Investment Mandate where MBD has discretion over the Co-Investment Mandate. In such a case and in accordance with the Advisers Act, where GS&Co. has custody or may be deemed to have custody of the assets of a Co-Investment Mandate, GS&Co. will (i) cause the custodian of the Co-Investment Mandate (which may be MBD or a third party) to send account statements (at least quarterly) to the Co-Investment Mandate (which the clients are encouraged to carefully review and compare to the account statements that they receive from MBD) and (ii) subject such Co-Investment Mandate to an annual surprise custody examination performed by an independent public accountant.

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**Item 16 - INVESTMENT DISCRETION**

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GS&Co. acts as the investment manager to each Advisory Account in accordance with the authority granted under the Offering Materials of the Advisory Account. GS&Co. seeks to manage the Advisory Account's investments in accordance with the investment objectives set forth in the Advisory Account's offering materials and advisory agreements. Investors in Co-Investment Mandates may impose investment guidelines relating to their accounts. The MBD Funds are managed on a discretionary basis. Non-Discretionary Co-Investors determine whether to invest in any investments sourced by MBD.

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**Item 17 - VOTING CLIENT SECURITIES**

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**Proxy Voting Policies**

MBD generally has the authority to vote the securities held by all of the Advisory Accounts. MBD's guiding principles are to make proxy voting decisions that (i) tend to maximize the long term value of an Advisory Account's investment and (ii) minimize the impact of conflicts of interest. In evaluating investor-voting proposals, MBD may consider information from a variety of sources, including, without limitation, management of the entity presenting a proxy proposal, shareholder groups, and / or independent proxy research services. In all cases, however, the ultimate decision on how to vote a proxy rests with the relevant MBD investment professionals based upon their assessment of the particular transactions or other matters at issue. Investors may contact MBD to obtain information about how securities in the Advisory Accounts were voted and to obtain a copy of MBD's proxy voting policy.

Material conflicts of interest between MBD and an Advisory Account with respect to proxy voting (which are not otherwise addressed by the guidelines) are typically resolved as follows:

- MBD may disclose the conflict of interest to the Advisory Accounts and obtain the written consent of the Advisory Account, before voting. When seeking this consent, MBD must provide the client with all pertinent information, including the nature of MBD's conflict; or
- MBD may abstain from voting the proxies or vote the proxies in accordance with the recommendation of an independent third party such as Institutional Shareholder Services; or
- MBD may take any other steps as it deems appropriate that result in a decision to vote the proxies that is based on the Advisory Account's best interest.

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**Item 18 - FINANCIAL INFORMATION**

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MBD has not attached a balance sheet because MBD is a division of GS&Co., which is a qualified custodian. GS&Co. has no financial condition that impairs MBD's ability to meet contractual commitments to clients and has never been the subject of a bankruptcy proceeding.

## GLOSSARY

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As used in this Brochure, these terms have the following meanings.

**“Advisers Act”** means the Investment Advisers Act of 1940.

**“Advisory Account”** means the MBD Funds and / or the Co-Investment Mandates sponsored, managed or advised by MBD, as the context requires.

**“BHCA”** means the Bank Holding Company Act of 1956.

**“Brochure”** means GS&Co.’s Form ADV, Part 2A, Merchant Banking Division Brochure.

**“CFTC”** means the Commodity Futures Trading Commission.

**“Co-Investment Mandates”** means investment mandates other than MBD Funds, including separately managed accounts, co-investment opportunities (on a deal-by-deal basis) and co-investment vehicles for individual investors or individual investments, offered through MBD.

**“Control-Side Professionals”** means a professional from a non-revenue generating division of the Firm, including MBD Compliance, MBD Legal, MBD Tax, GS Controllers, and GS Credit Risk.

**“Covered Fund”** means a private equity fund, hedge fund or other fund that relies solely on Section 3(c)(1) or 3(c)(7) of the Investment Company Act.

**“Firm”** means The Goldman Sachs Group, Inc. and its affiliates.

**“GS&Co.”** means Goldman, Sachs & Co., the Investment Adviser.

**“GSRM”** means Goldman Sachs Realty Management, LLC.

**“IAC Members”** means members of an Investment Advisory Committee.

**“Infrastructure Investments”** means certain MBD investments related to infrastructure assets or companies.

**“Investment Committee”** means an investment committee comprised of senior professionals in MBD and other senior Control-Side Professionals within the Firm involved in the process of MBD investing in or lending to a target company or borrower.

**“Investment Team”** means a team of investment professionals involved in the process of MBD investing in or lending to a target company or borrower.

**“MBD”** means the Merchant Banking Division of GS&Co.

**“MBD Code”** means the MBD Code of Ethics.

**“MBD Employee Funds”** means funds raised for the benefit of the Firm’s employees that invest in, or alongside, the Advisory Accounts.

**“MBD Funds”** means multi-asset pooled investment vehicles that have been privately placed and have not been registered under the Investment Company Act of 1940.

**“Non-Discretionary Co-investors”** means non-discretionary Advisory Accounts.

**“Offering Materials”** means the offering materials, governing agreements and / or other Advisory Account correspondence applicable to an Advisory Account.

**“Overhead Costs”** means a department’s fully loaded costs, which include the relevant department’s employee compensation and benefit costs, occupancy costs and support services costs (which may include an allocation for compliance, technology, human resources, debt servicing and senior management personnel).

**“Override”**, also called a performance fee, means an incentive allocation or incentive fee received by the Firm and / or its employees, directly or indirectly, from an Advisory Account based on the satisfaction of certain performance thresholds by such Advisory Account.

**“Participating Affiliates”** means foreign affiliated advisers of GS&Co. that are not registered with the SEC as investment advisers but may provide advice to MBD for use for the Advisory Accounts.

**“Portfolio Company”** means any entity in which an Advisory Account has made a debt or equity investment and includes real estate assets and other assets held directly by an Advisory Account.

**“SEC”** means the United States Securities and Exchange Commission.